The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 4th, 1939

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WITNESSES:

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E X H I B I T S

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MR. FRAWLEY: I am happy to say we can resume our pipeline inquiry this morning and we will recall Mr. Coultis.

SAMUEL COULTIS, having been recalled examined by Mr. Nolan said:

Q Mr. Coultis you are under oath?

A Yes.

Q This is a continuation of that phase of the inquiry's work known as the pipeline and has to do with what are known as the terminal delivery facilities, now you have brought to the Commission this morning a statement, this is the statement which you have brought?

A Yes.

Q And with the permission of the Commission I will have that marked and then we will have you deal with it.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "240").

Q The statement, Mr. Chairman and Mr. Commissioner, Exhibit "240" is headed:

"Royalite Oil Company, Limited, Pipeline Division, the following statements detail the capital expenditures and annual operating costs required to furnish terminal facilities, including tankage for crude oil, connections and facilities for loading tank cars and facilities and service for loading tank trucks. The following is drawn up on the assumption that the entire set-up is to be entirely new and independent of any facilities of a like nature that now exist at refinery points. The figures shown predicate that handling of 1,000 barrels and 8,000 barrels per day average in tank cars

"and 100 barrels per day average in tank trucks."

Now Mr. Coultis you have this statement in front of you, Exhibit "240". Under the first heading I see "terminal tankage", will you now explain that first item a-1 under the heading (1) "Terminal Tankage"?

A This is set up with the intention of loading or handling a thousand barrels per day to tank cars and the tanks required would be 3-40,000 barrel tanks.

Q Yes?

A Item 2----

Q On the right-hand side of Exhibit "240" I see that there are two big headings "Capital Expenditures" and "Annual Operating Costs"?

A Yes.

Q Now under "Capital Expenditures" I observe it is divided into 8,000 barrels per day in tank cars and 1,000 barrels per day in tank cars?

A Yes.

Q Why was it done that way?

A To give an idea of what the cost would be in handling the different volumes of oil.

Q Yes, and then in tank trucks there is only one figure of 100 barrels per day?

A Yes.

Q And then in the operating costs the same divisions are carried through, namely 8,000 barrels and 1,000 barrels in tank cars and 100 barrels per day for tank truck loading, that is right?

A Yes.

Q All right, then in a-1 you say that for 8,000 barrels 3-40,000 barrel tanks, there would be a capital expenditure of $120,000?

A Yes.

Q What is a-2?

A A-2 would be on the assumption that you would not be required to handle more than one thousand barrels a day and that is set up with 3-20,000 barrel tanks instead of 3-40,000 barrel tanks.

Q With a monthly expenditure of?

A $75,000.

Q Now subheading (B) under "Terminal Tankage", will you explain that to the Commission please?

A Pipeline connections would refer to the lines which would be necessary in the terminal to connect from the trunkline headers to the different tanks and throughout that terminal yard, including pipes, valves and fittings of various nature, a total of $14,195 for that type of equipment.

Q Now is it your opinion that this equipment set out under this first heading of "Terminal Tankage" would be necessary if those facilities were being divorced from the Imperial Oil Refinery yards?

A I do, sir. This is set out on an entirely new set-up.

Q And these pieces of equipment and these tanks are in your opinion necessary?

A They are, sir.

Q Now under the heading of "Annual operating Costs" you still preserve this division of 8,000 barrels and 1,000 barrels, do you not?

A Yes, as nearly as possible.

Q Perhaps you would be good enough to run through these subheadings under the operating costs, first?

A That would be the upkeep which would include repairs and water that would be required for fire fighting purposes and

any other purposes such as supplying the small steam plant; for gaugers, assuming that we would be delivering oil to different refineries or through other connections than to the terminal you would need three gaugers on the terminal as well as possibly a floating gauger checking up or taking care of deliveries to other points.

Q What does a gauger do?

A He checks hourly the deliveries received from the trunk line and would also check all deliveries of oil from the terminal; the next item is for our instruments and supplies which are put in at $100; I think that is the very minimum figure.

Q To go back again to the gaugers I notice there is no difference between the 8,000 barrel operation and the 1,000 barrel operation?

A There would be no difference. The gauging would be constantly checked regardless of whether you are taking 1,000 or 8,000.

Q Yes?

A It would be necessary to have a man on the job.

Q Then the next item?

A Is depreciation and insurance.

Q How is the depreciation worked out or do you know?

A I believe that was worked out by the accounting department on a ten-year basis.

Q Insurance?

A Insurance on the tanks was set-up on a 80% value on the tanks because it is necessary to set-up an 80% value in order to obtain the insurance.

Q Yes?

A 75%, the steam plant was set-up as economically as possible

and then the operating costs of the steam plant was allocated to the different divisions that would be in the terminal and 75% of those costs were charged to the terminal tankage.

Q Now let me be clear about the steam plant, whose steam plant is it?

A It would be the pipeline divison's steam plant set up for the purposes of this terminal connection.

Q Why would there be an allocation of 75% of its operating costs?

A Because I consider the steam plant, one of the large functions of that plant would be for fire fighting purposes and while the steam would not be required only in case of fire, in colder whether there would be a great deal of steam used to heat that oil to prevent solidifying over a greater part of the year.

Q Why would not 100% be charged to the terminal?

A Because I would consider that some of it would be used for heating other units such as a small office building, pump house, probably stand-by steam for a steam pump, assuming that electricity was used as the motor power, and for various other sources and for fire protection for the units.

Q Then the next is the office and testing costs?

A Yes, 60% of that is charged to this particular unit.

Q Why 60%?

A By checking carefully into it that is the best estimate that I could make.

Q Yes?

A Proportion of supervision and forman's expenses $3,677.

Q Well what does that mean exactly, who does the supervising,

who would be the supervisor?

A In setting up an independent unit it would be necessary to have a foreman in charge. The supervision would include part of my salary as well as the accounting department's portion and any other officers connected with this work.

Q Yes?

A 60% of the fire fighting depreciation; 60% depreciation on water, light and fuel line, 60% interest on the land and investments and 60% of the general taxes, making a total of $66,757 on an 8,000 barrel set-up and $45,383 on a 1,000 barrel set-up.

Q Now that only deals with what we call this "Terminal Tankage"?

A Yes.

Q Now what is your next heading on page 2, heading no. 2?

A Tank car loading facilities.

Q THE CHAIRMAN: That by the way is exclusive of any tankage which is in use now?

A That would not be a duplication, sir, of the first item, the terminal tankage.

Q Last year you were paying $35,000 for some tanks, are they in here or not or is this over and above that?

A They are in here, sir, they are in the first.

Q MR. NOLAN: They are created new, are they not?

A Yes.

MR. FRAWLEY: This would be in lieu of the rent of course?

MR. NOLAN: Yes.

Q MR. NOLAN: This is on the assumption that we are

completely divorced and erecting new terminal facilities belonging to the Royalite Oil Company?

A Yes.

Q All right, what is the second heading "Tank Car Loading Facilities"?

A Tank car loading facilities set-up to handle 8,000 barrels per day and 1,000 barrels per day, that would consist of two main items, for track installation.

Q What does that mean, explain that?

A That would mean it would be necessary to approach one of the railways to put in a siding a branch possibly for 8,000 barrels on each side of the loading rack, whereas the set-up of 1,000 barrels you could possibly load that 1,000 barrels per day off one track; that rack I understand would be installed by one of the railways for a certain sum of money and a rental then made on that equipment annually and the loading racks would be the pipelines, loading equipment for handling the oil into the tank cars, $19,500 on an 8,000 barrel basis and $8,000 on a 1,000 barrel basis.

Q Well then in the annual operating costs under that heading of "Tank Car Loading Facilities"?

A On an 8,000 basis you would require 2 carloaders, as I assume this would be loaded over a 16 hour period, whereas in the thousand you cut that down to one man and load in one eight hour period; two car checkers, two for 8,000 and one for 1,000; those are men that would, whose responsibility would be to check every car coming in for identification, also for its physical condition to meet the railway regulations; depreciation and insurance----

Q Yes?

A Then 20% of the steam plant operating costs; 90% of the pump house operating costs; 30% office and testing; proportion of supervision and forman's expenses; 30% of the fire equipment; 30% of water, light fuel lines depreciation; 30% interest on land investment.

Q Why is the pump house operating costs so high?

A Because the pump house would be used 90% of its time in transferring oil from terminal tankage to tank cars.

Q And where is this other 10% of its time utliized?

A Spread over the other equipment, probably transferring from tank to tank or to truck loading.

Q Yes. Now the totals that appear under this column are carried out under the heading of tank car loading and truck loading; under the heading of tank car loading, sub-head 8,000 and 1,000 barrels?

A Yes.

Q What does tank car loading involve, Mr. Coultis, will you just in your own language describe to the Commission what that means, what is a tank car?

A A tank car is an iron tank mounted on trucks.

Q On railway trucks?

A On railway trucks, capable, with a capacity of from 200 to 250 barrels capacity; those tanks are either rented or owned outright by different companies; the customer would ship, pardon me---

Q Go on?

A The customer who wishes to receive oil would ship in his cars into the Calgary yards of the different railways and it would be up to the pipeline company to have its man check up those cars and see if they had arrived and were

proper cars for this type of petroleum product, see that they were received and be inspected for defects with reference to the tanks, valves and fittings as well as some of the running gear.

Q But what is the physical operation, the oil comes in through the pipeline and where does it go?

A To the terminal tankage and then is elevated for the loading racks, it is pumped to the loading racks where the loader diverts the stream into the particular tank or tank cars that he wishes to load.

Q And what is a loading rack?

A A loading rack is a system of pipelines connections on an elevated platform, the height of the dome of the tank cars through which the oil is diverted to the different tanks.

(Go to number 6436)

Q And the oil is pumped from the terminal tankage, is it?

A Yes, sir.

Q And it is pumped up on to this loading rack?

A Yes, into the cars.

Q From the loading rack it continues to be pumped into the dome of the tank car?

A Yes, sir.

Q And the car is filled and then the tank car moves along and another car takes its place, is that the operation?

A No, sir, the idea is to load a certain number of cars at one time, depending on the capacity of your loading rack.

Q For how many cars has this loading rack been made available?

A About twelve cars for the 8,000 barrels per day, and four cars for the 1,000.

Q So that you need a loading rack of 12 car lengths, is that right?

A Yes.

Q So that they can be loaded simultaneously?

A Yes. 6 on each side of the rack.

Q 6 on each side of the rack?

A Yes.

Q Then it is only 6 car lengths?

A And 2 lines.

Q And 2 lines?

A 2 lines along the 8,000, and a single line for the 1,000.

Q Now your third head is Truck loading facilities?

A Yes, sir.

Q Just describe that operation simply to us, will you please?

A Truck loading-----

Q What are these trucks like, to begin with, what are they?

A They vary. They include every manner of truck made with

about every type of container called a tank that you could imagine.

Q It is whatever the man who wants to carry away his crude provides for that purpose?

A Exactly.

Q How do those capacities vary?

A They vary from a few barrels up to, I believe, 20 barrels. In installing truck loading facilities I would consider it would be necessary to isolate that away from your other equipment, on account of fire.

Q Wherein is the fire hazard, in the tank car loading or the tank truck loading?

A More so on the tank truck loading,

Q Why?

A Because tank trucks are propelled by an engine. They might come in with a hot muffler.

Q A hot what?

A A hot muffler, hot exhaust pipes, which are dangerous, and should that truck be loaded while the equipment is hot it might start a fire. It might start a fire in starting up the truck again.

Q What you are saying is it should be removed away from the tank car loading operations?

A All other operations.

Q From all other operations?

A From all other operations, yes, sir.

Q What is the physical operation required to load a truck. What happens. Your oil goes through your pipeline into your terminal tankage?

A Then a pipeline, a separate pipeline would be laid to that location where the trucks are to be loaded. There should

be a receiving tank there to receive it with a capacity of 500 to 1,000 barrels. referably two small tanks. And then a power-driven pump to pump that oil into the tank trucks.

Q You did not require a tank to load your tank cars, did you. It we pumped right from the-----

A We pump directly from the terminal tankage bacause that is a larger volume.

Q But in this operation you require a receiving tank and you say preferably two 500-barrel receiving tanks to load those trucks?

A Yes.

Q Then the oil is pumped into those two 500-barrel receiving tanks?

A Yes.

Q Then what happens?

A Then it is pumped by an individual pump on the location into the truck as required.

Q From these tanks?

A Yes.

Q Why do you prefer two 500-barrel tanks to one 1,000?

A While you are loading from one it would be possible to fill up your stock in the other tank.

Q Is this operation a twenty-four hour a day operation?

A Well, it would not be, if I can help it. In loading 100 barrels every day, per day, which would be probably running it to quite a peak at certain times of the year, I would endeavour, if possible, to load those trucks during the late daylight hours.

Q What do you estimate would be the peak in respect to this truck loading?

A The peak of the number of trucks loaded?

Q Yes, the peak in barrels loaded in trucks on any given day?

A It would possibly run in peak seasons from 800 to 1,000 barrels per day.

Q Do I take it on the other hand there would be some days there would be no loading?

A No loading whatever.

Q Those would be the Winter days?

A Yes.

Q The peak season would be the peak season we have learned of before?

A Yes.

Q Seeding?

A Yes, sir.

Q And harvesting?

A Yes, sir.

Q What are those items under Truck Loading facilities. First, a 3-inch line from terminal tankage to loading tank?

A That would be a line for conveying the oil from the terminal tankage to the truck loading tank.

Q We were calling those receiving tanks. A receiving tank and a loading tank would be the same?

A Would be the same thing, yes.

Q Then you proceed with two 500-barrel tanks, which includes fittings, meters, valves, small lines and fittings to fit up the loading rack, or the loading facilities for the trucks?

A Yes.

Q Platforms and sheds, and a power-driven loading pump, a total of $6,645.00. Annual operating costs for eight

hours' operation, I loader.

A I loader.

Q Just a moment. Would the operation of tank car loading be a twenty-four hour operation?

A No. For 8,000 they should all be loaded in a sixteen hour day.

Q Does the railroad provide any personnel with these tank cars?

A No, sir.

Q They just provide the car?

A They do the switching, and beyond that that is all.

Q Therefore, you need a loader for this work of loading, and what are his duties, what does he do?

A He keeps his stock of oil in the tank in shape and loads each truck as it comes in and makes out the delivery ticket on that. Or he collects sufficient information of the amount loaded to pass on to the accounting department.

Q Then the next item is Power for Pump.

Q Yes, sir, that is based on electricity.

Q Then you have two items of Depreciation and Insurance?

A Yes, sir. On the equipment set up for that work.

Q Then a further allocation of this steam plant and pump house operating costs?

A 1% of the steam plant operating costs and 10% of pump house operating costs. 10% of office and testing costs. Proportion of supervision and foreman's expense, 10% of fire equipment depreciation, 10% of water, light and fuel lines depreciation, 10% of general taxes and 10% of interest on land investments.

Q Why do some of these items come out higher in the 1,000 barrel operation than they do in the 8,000. Do you know the reason for that?

A In the 8,000---

Q I notice fire equipment, for example. It is $213.00 on the 8,000 barrel operation and $236.00 on the other?

A I cannot say, sir. I did not carry out that depreciation on that item myself.

Q Well, then, turning your attention to these totals on the right of the second page of Exhibit "240", they are simply carried through in addition, showing the capital expenditures and operating costs, split up into 8,000 and 1,000, and 100 barrel operations; that is right, is it not?

A Yes, sir.

Q Then I notice these three lines written at the bottom. Totals. Cost of loading 8,000 barrels per day in tank cars. I look under tank car loading and I see the figure is .03385?

A Yes, sir, on an 8,000 barrel basis.

Q What is that in dollars and cents?

A That is 3.5 cents.

Q 3.3 cents?

A 3.3 cents, yes, sir.

Q Then the cost of loading 1,000 barrels per day?

A 17 cents.

Q That is in both instances in tank cars?

A Yes, sir.

Q That is the cost of loading 1000 barrels per day in tank cars

MR. FRAWLEY: Is that 17 cents per 1,000 barrels It cannot be 17 cents a barrel?

MR. NOLAN: Yes, it can, that is what it is.

A Yes.

MR. FRAWLEY: Just what the statement shows bothers me at the moment.

MR. NOLAN: Perhaps that might have been expressed differently.

Q What are those figures, 3.3, 17 cents and 18 cents. They are the cost-----

A Of loading per barrel for 8,000 barrels daily loading.

Q Those are the costs per barrel of loading 8,000 barrels per day in tank cars, and the cost per barrel of loading 1,000 barrels per day in tank cars?

A Yes.

Q And the cost per barrel of loading 100 barrels per day in tank trucks?

A Yes, sir.

MR. FRAWLEY: 18 cents?

MR. NOLAN: 18 cents.

A On the 8,000 barrel operation, and 14½ cents a barrel on the 1,000 barrel operation.

THE CHAIRMAN: Is that right?

MR. NOLAN: It is per barrel, sir. There is a further statement, sir, which is in the course of being prepared and will be here any moment I thought it would be here now. It deals with the question of the utility buildings necessary to service these terminal facilities as we propose in this first statement. It may be a minute or two before it gets here. It is all ready and on the machine. Perhaps there might be some

discussion of this statement, so that no time would be lost. I am sure my learned friend has something to say about it.

THE CHAIRMAN: Does it relate to this?

MR. NOLAN: Yes, it does.

THE CHAIRMAN: I was wondering if we should not, as long as it is coming right along, that examining counsel should not have all the statements in front of him before he starts.

MR. FRAWLEY: It is a statement showing the capital cost of building this steam plant and so on.

MR. NOLAN: Yes.

THE CHAIRMAN: You might find out about that and let us know, Mr. Nolan.

MR. NOLAN: They promised it would be here before eleven o'clock.

THE CHAIRMAN: It is just a matter of minutes, and you can let us know when you are ready. I think it would be better to cross-examine with all the statements in.

MR. NOLAN: All right, sir.

(At this stage there was a short adjournment.)

Q Now Mr. Coultis you are producing another statement which consists of three pages and is entitled "Royalite Oil Company, Limited, Pipeline Division, Utility Plant Necessary to Service Terminal Facilities Proposed on Statement No. 1"?

With the permission of the Chairman that will become Exhibit "241" and will comprise the three statements.

THE CHAIRMAN: You are making these one Exhibit, are you Mr. Nolan?

MR. NOLAN: If you please, sir, because the third page is simply a recapitulation of what has gone before.

(STATEMENT PRODUCED HERE MARKED EXHIBIT "241").

Q MR. NOLAN: Now Mr. Coultis, what is the purpose of this statement which is now being marked Exhibit "241"?

A This is to show the different units necessary for operating the terminal, including the steam plant, pump house, office, testing room, and a small garage.

Q Yes, showing the capital expenditure required under each item?

A Yes.

Q The annual operating costs and how those operatings costs are distributed as has been done on Exhibit "240"?

A Yes.

Q Well now just beginning, the first is the steam plant, first of all with an 8,000 barrel operation?

A Yes; we would install 2-100 Horse Power boilers; they are, the price there is based not on the price of a new boiler but what we could, we believe we could obtain a good second-

hand boiler to serve this purpose capable of carrying a 125, 100 pounds steam pressure, that is on the 8,000 barrel a day basis.

Q Now on a 1,000 barrels a day basis?

A Cutting it down to one boiler expecting that the operation will be carried on largely during the daylight hours.

Q Well then going through these items underneath the heading "Steam Plant", you have two boilers and then in brackets, one boiler with reference to the 8,000 barrel operation or the 1,000 ?

A That is right sir.

Q Yes, that is $4800 and $4200?

A Water tank and feed pump for the boiler $650 and $325; pipe valves and fittings $1600 and $800; foundation for building and lighting $3900, $1950; fuel, water and steam lines $3800 and $1900; totals $14,750 and $7,375.

Q Yes?

A Annual operating costs, three engineers, or operating three shifts for 8,000 barrels; operating two shifts with two engineers for 1,000; fuel and light $18,250 and $9,250; compound and other supplies $1,095 and $547.50; repairs $730 and $365; depreciation $1475 and $737.50; insurance $185.36 and $92.18; proportion of supervision and foreman's expenses $404.16 and $302.96.

Q Now your total of $29,256.02 on the 8,000 operation and $16,040.14 on the 1,000 barrel operation,, and those are distributed in the percentages set opposite the heading of "Terminal Tankage", "Car Loading", "Truck Loading", "Office, Testing and Pump House"?

A Yes.

Q And these figures of $21,942.02 and the figure of $5,85120, all appear on the statement No. 1?

A Yes.

Q They all appear on that other Exhibit, Exhibit "240" which we put in?

A Yes.

Q This really is a break-down to show how these operating costs on Exhibit "240" are arrived at?

A Yes.

Q So that if I would look under "Terminal Tankage" on Exhibit "240", under the heading of Operating Costs, I should find this figure in respect to the steam plant of $21,942.02?

A Yes.

Q And it is there?

A Yes.

Q Then the pump house?

A The building on an 8,000 barrel basis, $2300; on a 1,000 barrel basis $1150; foundation $600 and $300; two motors $3800 and $1900; two pumps $4000 and $2000; steam line, headers, pipes, valves and fittings, heating coils and lighting equipment $4500 and $2500; totals $15,200 and $7,850.

Q Then we have these operating costs again in respect of the pump house and I see you have two pump men and one, the one is for the thousand barrel operation?

A And two for the 8,000; supplies $350 and $175; repairs $750 and $375; power for pump $3600 and $1800; depreciation $1520 and $785; insurance $113.75 and $56.87; 1% of steam plant operating costs $292.56 and $160.40; proportion of supervision and foreman's expense $416.49 and $322.47.

Q Then we distribute that, do we not?

A Yes.

Q Between the car loading and the truck loading?

A Yes.

Q In the proportion of 90% and 10%?

A Yes.

Q And they figure out $10,280.52 and $1142.28 and that will appear on Exhibit "240" in the first statement?

A Under the 8,000 barrel loading basis.

Q And the corresponding figures under the 1,000 loading figures?

A Yes.

Q That is right is it?

A Yes.

Q Then your office, test room and garage?

A Building $4800; for loading 1,000 barrels a day we just lump the figure of $2500 in to take care of a small building and some testing equipment.

Q You made no division of them in respect of the 1,000 barrel operation?

A No sir. Annual operating costs would be two clerks for testers on the 8,000 barrel basis and they were wiped out entirely on the 1,000; believing that that could be handled by the main office.

Q Yes?

A Supplies $350; $175; depreciation $540 and $250; insurance $63.75 and $30; 3% of steam plant operating costs $877.68 and $481.20; proportion of supervision and foreman's expense $147.96 and $102.70; total $5,629.39 on the 8,000 barrel basis and $1,038.90 on the 1,000 barrel basis.

Q And again that is distributed between terminal tankage 60%, car loading 30% and truck loading 10% as is shown in

Exhibit "240"?

A Yes.

Q It has been suggested to me that we do not go into the items, Mr. Coultis. The next main heading is "Water, light and fuel lines from source of supply to location of nearest units", you make no distinction between the 8,000 and the 1,000 barrel operations there, do you?

A No sir.

Q Why not?

A Because I cannot do it. This whole item is a straight estimate because we do not know where this terminal would be set up and I have assumed that 5,000 feet of 6-inch water main would be required and the 2-inch water main, a thousand feet of 2-inch water main and 2,000 feet of 3-inch water main; the estimated cost of power and light lines and outside lighting, that is yard lighting, $650.

Q Then you have your operating costs annually on those water, light and fuel lines, and you again distribute it to the terminal tankage,car loading and truck loading, 60, 30 and 10%?

A Yes.

Q Then you have another item of $16,730 for fire equipment?

A To cover the entire set-up, including terminal tankage, buildings, tank car loading, truck loading.

Q Then you have your operating costs annually in that fire equipment item?

A Yes.

Q Which is distributed for terminal tankage, car loading and truck loading in the percentages of 60, 30 and 10?

A Yes.

Q Then you have your main heading again of Supervision and

Foreman's Expense?

A Yes.

Q Which comes to $6100 and is distributed this time not only to terminal tankage, car loading and truck loading but to the utility units?

A Yes.

Q Land acquisition is another heading, 40 acres at a minimum cost of $19000?

A Yes.

Q Then you have the annual distribution of interest on land investment, again distributed to terminal tankage, car loading and truck loading in the percentages of 60, 30 and 10?

A Yes.

Q And your last heading is "Total Capital Expenditures for Utility Plants Necessary to Service Terminal Facilities" on the 8,000 operation, $81,280 and on the 1,000 operation $63,655?

A Yes.

Q Now on page 3 of Exhibit "241" there is a heading:

"Additional Capital Expenditures Necessary for Connections to Refineries, Automobile for Gauger's use and Assuming that the Terminal Location is one mile beyond the Present End of the Trunk Line, there would be an additional cost for extending the 4-inch and 6-inch line"?

A Yes.

Q I suppose that means what is says?

A Yes.

Q Then "Cutting into main lines and making connections", you have an item for that "Meters, if required at cost of pipeline division, Brodie 4-inch, 1,000 pound installed with

valves and fittings $11,223?

A Yes.

Q And then you have an automobile and extension of the line, making a total of $23,087.60?

A Yes.

Q Now this recapitulation simply gathers together these items which we have been considering, doesn't it?

A It does sir.

Q And it shows the capital expenditures necessary to provide these terminal facilites on these two bases?

A Yes.

Q Sub-divided into terminal tankage and car loading equipment, truck loading facilities, utility plants necessary to service terminal facilities and additional capital expenditures necessary for connections to refineries, and then the annual operating costs for loading 8,000 barrels, those are the same figures as we find on Exhibit "240"?

A Yes.

Q With respect to per barrel por day on these different operations of 8,000 and 1,000 barrels per day?

A Yes.

TO MR. FRAWLEY:

Q Mr. Coultis, I do not know just where to begin, not having had this until this morning and apparently not even having been copied by your people until this morning, it is very difficult to make any detailed examination of your figures but at the moment I am going to content myself with some general examination; these figures, by the way, Mr. Coultis, are not wholly the work of the Calgary officers of your company, are they?

A I prepared all the physical set-up.

Q What does that mean, am I wrong, my understanding was, and what I gathered in Toronto last week that the Toronto officers either of your company or of the Imperial had this material before them and had passed upon it?

A Yes, they had my original set-up.

Q And then it was revised apparently because it has only been finished this morning, apparently it was revised by you after you had received it back from Toronto?

A After Mr. Macleod handed it back to me.

Q Yes?

A I presented my original to Mr. Macleod, I would not be prepared to swear what he did with it.

Q Was the original which you prepared and which Mr. Macleod took to Toronto, just the same sort of thing, take Exhibit "240", I mean the same sort of classification, the same headings and the same material generally?

A Generally, yes.

Q You have not got here what you might call your working papers?

A I have not got them here.

Q Anyway Mr. Macleod brought it back, brought back from Toronto what you had given him or something else?

A He brought back my original and some suggested changes.

Q Some suggested changes and then your original and the suggested changes were incorporated into Exhibit "240", dealing with that for the moment?

A Yes.

Q And then does the same thing apply with respect to the Exhibit "241", did you give him something of that sort when he went to Toronto?

A It was all combined generally in one statement.

Q I see, and then it was after Mr. Macleod returned from Toronto it was put into two statements, 240 and 241?

A Yes.

Q The distributions for expenses, the percentage distribution, did you calculate those out or were they calculated in Toronto?

A The percentage distributions were largely calculated by the accounting department.

Q I mean here or in Toronto?

A Mr. Burns' department so far as I know, sir.

Q Now have you, you are not presenting anything on behalf of the Imperial Oil, Limited, I take it?

A No sir, not that I know of.

Q These are purely your own statements as to what this investment would cost if the Royalite Oil Company made it?

A They are.

Q Now let me understand this, Mr. Coultis, a barrel of oil is gathered by you or 1,000 barrels of oil are gathered by you in your gathering lines in Turner Valley?

A Yes.

Q It is put into your sub-storage stations, Longview or the other one?

A Yes.

Q It is then transported by pipeline into Calgary?

A Yes.

Q It goes into some tankage in the Imperial Oil's property at Calgary?

A In the tank located on their property, yes.

Q And much of it is then put into tank cars and shipped away to Saskatchewan refiner

A Yes.

Q And it may be said that from the time it leaves the gathering system or enters the gathering system it is a continuous operation until it is in tank cars and rolling on its way over to the Saskatchewan refinery?

A Yes, in a sense it is a continuous operation.

Q Yes, we can see in our minds, I visualize a 1,000 barrels or a tank car,, you say about 250 barrels?

A Yes.

Q We can visualize 250 barrels of this crude oil leaving the Anglo-Canadian tanks in Turner Valley, entering your gathering system, going through your pipeline, going into some terminal storage in Calgary over on to the Imperial Oil loading rack, into these cars and off to the Brandon Refinery?

A Yes.

Q A perfectly continuous operation?

A Very much so.

Q But it passes through the property of two separate legal entities, the Royalite Oil Company and Imperial Oils Limited?

A Part of it does sir.

Q Well I know, I am just visualizing this one car?

A Yes.

Q That I gave you the hypothetical journey of?

A Yes.

Q It passes through the hands of two separate legal entities and the charges which are made are,- eliminating now for the moment the fact that the oil is sold by the Anglo to the Imperial and then bought back at Calgary?

A Yes.

Q I presume for the sake of this examination we can assume that the Anglo gave the oil to you to get to Calgary, and

then get it off to the Brandon Refinery, it would be the same thing?

A Yes largely.

Q Now if we assume that sort of operation, the Anglo-Canadian pays you 15 cents to get it to Calgary?

A Yes.

Q And they pay the Imperial Oil Limited 5 cents to put it in the tank cars to send it to Brandon?

A I believe that is the charge.

Q And then as soon as this set-up is put in force which you have outlined to the Commission today, as soon as that has been done, the Anglo-Canadian will pay you the 15 cents or such greater or lesser sum as this Commission recommends and the Public Utility Board puts into effect, X cents we will say, well we will use 15 cents, they pay you 15 cents and then they will pay you 13½ cents to send that off to Brandon, it is a horse-back figure of course, but you say they would pay 17 cents on a 1,000 barrels a day operation and they would pay 3 cents on an 8,000 barrels a day operation?

A Yes.

Q But we have in the record here that the Anglo-Canadian may be shipping out of Turner Valley this summer 2500 barrels a day, we do not know, but let us assume they will, if they were shipping 2500 barrels a day out of Turner Valley, working it out just very roughly from the 13, from the 17 down to the 3, it would run, it would work out at perhaps 13½ cents. It is not fair to say definitely it would be that, you would have to make a fresh calculation on the 2500 barrels?

A It would work out at some figure between the 17 and 3.3.

Q Now Mr. Morrison has worked it out very roughly and he tells me it would be about 13½ acents, so that the situation would be that they would pay you almost as much to take it out of the terminal storage and put it into the tank car as they would pay for you to gather it up from their field wells and transport it the 31 miles to Calgary, that is the result of those figures is it not?

A Yes.

Q And those figures are submitted by you, are they submitted by you as to what should be the practical delivery, what should be the situation in effect at this Calgary end, or purely an answer to the Commission's question, regardless of where it works out in a practical way or not?

A Well it means this to me, Mr. Frawley, that in order to go on a new piece of ground and set up a complete plant as itemized here to handle all that service, if you minimize it to these figures of 8,000 barrels per day and 1,000 barrels per day, I can say that the physical assets there and the operating of them, regardless of what they appear in dollars and cents, appear to me to be necessary to carry on that work in a safe and satisfactory manner.

Q Yes, I am accepting that and I am accepting that there is no quarrel to be taken, there might be much exception taken but I am not at the moment directing my mind to that, I am assuming you would require all of these assets and that the cost would be, the capital costs and the operating costs would be just as you set them down, assuming that, that means then you would have to charge the Anglo-Canadian Company 13½ cents to load those cars?

A It appears so, sir, on that small quantity.

Q Yes, I just want to be quite certain; now I am just suggesting

to you why in the world should there be any interruption of the present situation whereby the Imperial Oil, Limited is performing this function and making a charge?

A Well I do not know, sir, why.

Q And you have not come prepared, you are not an officer of that Company, you have not come prepared and Mr. Nolan will tell us about that and make his submissions but at the moment I do not want to be argumentative about it?

A No.

Q I just want to be clear with you as the witness, you are not offering any reason why the present situation should not continue whereby the Imperial Oil, which is as much a public utility for the moment as the Royalite Oil Company with regard to the handling of petroleum---

MR. NOLAN: Mr. Chairman, I don't agree with that at all.

Q MR. FRAWLEY: Perhaps I should not ask Mr. Coultis to agree with that at all but we certainly have got to direct our minds to that in the interim report of this Commission; anyway Mr. Coultis I just want to leave it with you, so far as you are concerned at this time that so far as you know, the Imperial Oil, Limited, and I feel I must direct this question to either Mr. Coultis or Mr. Nolan, the Imperial Oil, Limited, is not coming in to say what the capital investment in the loading facilities there is or what the operating costs are, so far as you know they are not prepared here today to do that?

A I do not know, sir.

THE CHAIRMAN: It is not being done through this witness.

Q MR. FRAWLEY: Certainly not through this witness?

A No.

Q And I do not know, I think Mr. Moore should be here at 2 o'clock and we can ask him about it; I am sure Mr. Nolan will have him here if we ask him to do that, so that if you are to do a job, if you are to make the deliveries, if you are to do the job that Mr. Moore is now doing, that is a fair way to put it is it not, if you are to do the job that Mr. Moore is now doing you will have to have from the Anglo perhaps 13½ cents and Mr. Moore is charging 5 cents?

A If I am to do the job that Mr. Moore is doingand you are going to limit me to these two volumes to be handled per day then---

Q Of course I don't want to be critical, you have limited yourself?

A Yes.

Q I am simply asking you and I am not being quarrelsome, you had to do it in some way, of course you could have done it in a whole series of statements, delivering 8,000 and then coming down in 500 barrel jumps to 100 barrels?

A Yes.

Q I am not blaming you for not doing that but if you are to do the job that Mr. Moore is now doing, I will put it that way, he is now doing a certain job, be it whatever barrels I do not know, but if you are to do the job that Mr. Moore is now doing and I cannot limit myself to the size of the operation because I would suppose you would know as much at least as to what Mr. Moore is doing as I would and probably more, but just taking it from what Mr. Moore did last year or perhaps what he is doing now because it is getting on to

the busy season, and eliminating the loading which he is doing for his own company, no, including that, Mr. Moore is loading a great deal for the Regina Refinery of the Imperial Oil?

A Yes.

Q And I understand the evidence is here that he is charging the Regina Refinery or making a book entry of some sort, there is a charge being made of 5 cents?

A I understand so.

(Go to number 6459)

Q He is also doing a similar job for the Anglo-Canadian, moving oil to Brandon for them and he is charging them 5 cents?

A Yes.

Q I do not know in what quantities, have you any idea what quantities he is loading?

A I do not know this week.

Q This week?

A No.

Q But in any recent period? Last week or any time you know of Mr. Coultis?

A The movement is only commencing and it was very small, I believe, last week.

Q It is beginning to increase now?

A Yes.

Q Do you think it is as much as 1000 barrels a day for Anglo?

A I believe it would be slightly under that yes.

Q Of course, you do not mean 1000 barrels for this man? You mean lumping the car loading in the day to whatever consignees you may have?

A For what parties he is shipping that?

Q No, but in your set-up of this 8000 barrels a day, you mean 8000 barrels to be loaded to whomever may want it?

A Yes.

Q Do you know how many cars Mr. Moore is now shipping out of there per day?

A I do not know.

Q Would it be nearer the 8000 or the 1000?

A I believe it would be between the two.

Q Perhaps Mr. Moore is shipping out 5000 barrels per day to all consignees?

A Yes.

Q If he were shipping about 5000 barrels a day he is charging, for whomever he ships, the I.O. at Regina, or the B.A., - I do not know whether they are doing their own - but for whom ever he is doing it he is charging them 5 cents?

A Yes.

Q If he is shipping 5000 barrels a day he would have to charge them about 9 cents on the basis of your set-up, or you would have to if you were there to-day?

A Yes.

Q Just suddenly to-day with this plant, you would have to charge them about 9 cents on this very rough calculation that I have worked out?

A Presumably somewhere in that neighbourhood.

Q All right. So much for that. Now, Mr. Coultis, you can understand I have to defer any detailed critical examination of these figures?

A Yes sir.

Q But let me ask you a question on that statement you left with us just as a rough guide for this evidence. How many thousand barrels of storage are reasonably required to supply adequate delivery facilities?

A 40,000 is the answer I believe on this sheet.

Q That seems to be alternative. Which are you looking at now, Mr.Coultis?

A Exhibit "240".

Q THE CHAIRMAN: Terminal storage?

A Terminal. Three 40-s.

Q MR. FRAWLEY: In other words, you have given the 8,000 then as your answer to the question? And you have simply added the 1,000 just for some sort of

comparison purposes. Now the question I am asking you is how many thousand barrels of storage are in fact reasonably required to supply adequate delivery facilities, in your judgment?

A On an 8,000 barrel basis, daily basis, three 40-s.

Q That is if, you see. I am asking you as, perhaps, the man who should know most and the Commission wants to know how many thousands of barrels of storage are reasonably required, of terminal storage, are reasonably required to supply adequate delivery facilities. Now you have in mind moving so and so, but this is another subject. How many thousand barrels are required? Never mind what you have done here?

A To carry on 8,000 barrels daily.....

Q Is 8,000 the figure? Suppose we had no figure at all, and we asked you the question last month how many thousand barrels of storage, I do not mean tank cars, but how many thousand barrels of storage are reasonably required to be used incidental with adequate delivery facilities?

A 120.

Q 120 is your answer?

A Yes.

Q 120,000 barrels? In other words - $1.00 a barrel it is the same figure?

A Yes.

Q So 120,000 barrels is your answer to that question?

A Yes.

Q That is your best judgment as to what is required down there now?

A Yes sir.

Q Why do you say that, Mr. Coultis?

A I originally gave the Commission three 80-s. At that time I assumed I would handle all the oil.

Q Yes?

A Since that time it has been decided to deliver this oil where possible, or there is a possibility we will have to do that, deliver the oil to the different refineries direct. Therefore, I have cut this tankage down considerably.

Q Yes. Now then, you have in mind, therefore, only operating terminal storage facilities for the purpose of making deliveries to tank cars and tank trucks?

A Tank cars and tank trucks, and also some storage to take care of an emergency.

Q That simplifies it considerably. You are not having in mind operating any terminal storage for the refineries, the Calgary refineries?

A No sir.

Q The I.O., or the B.A., of the Lion?

A No sir, only in the case of emergency. In case they should have a fire.

Q But you could look after that through Turner Valley couldn't you?

A We would possibly not.

Q Possibly not what?

A There would be times when it would be necessary probably to bring part of that oil in here.

Q That is an operating matter, but ordinarily would you think Turner Valley storage should be able to look after that, even in an emergency?

A Not in the peak season.

Q If the emergency came in the emergency season, it might

add one emergency on to another, and you might have to bring some into Calgary?

A Yes.

Q In any event, you are only providing in this set-up for constructing and operating terminal storage necessarily incidental to making deliveries into tank cars and tank trucks?

A That is right.

Q We are clear about this. It is only what is necessarily incidental to delivering to tank cars and tank trucks?

A Yes.

Q There is no warehousing for the British American or warehousing for the Imperial or warehousing for the Lion or anybody else?

A Not contemplated in that figure.

Q You say you have to operate 120,000 barrels of storage to make delivery, this is the carrier making deliveries to tank cars and tank trucks. Does that include what the Imperial sends over to Regina?

A No sir. That is assuming that each refiner would ship his own stuff.

Q So that this is only to make deliveries to refineries operating in, largely in Saskatchewan aren't they? And some small ones in Alberta?

A Any independent refineries that do not own their own shipping facilities here.

Q To be practical about it though, a great majority of it does go to the Saskatchewan refineries?

A I believe so.

Q So far as the tank car movement is concerned?

A Yes.

Q Do you know what this movement amounted to last year?

A I do not offhand, sir.

Q Whatever movements there were were handled by Imperial Oil of course?

A Yes, largely.

Q But you have had that in mind, that movement to the Saskatchewan refineries principally? You have that in mind in erecting this 120,000 storage?

A I had, sir. I also have in mind that this 8,000.barrels a day shipment may be very heavy in two seasons of the year when this tankage would be required.

Q It flattens out to an all year average of 8,000?

A It does, yes sir.

Q The movement you have in mind?

A That is the yearly average of both the 8,000 and the 1,000.

Q Now before I leave that though, let us clear up what the situation is in regard to deliveries to refineries. I do not think there is anything more except of a detailed nature to ask you about with regard to the deliveries to tank cars and tank trucks.

THE CHAIRMAN: Just before you leave that. Mr. Coultis says that he needs three 40-s, I take it 120,000 barrels. What have you got now?

A Two 80-s and a 40, Sir.

Q Two 80-s and one 40? So you have under your present rental scheme, you have more than you need?

A If each refiner took his oil to his own refinery.

Q On the assumption you made, of course, that they would?

A Yes.

THE CHAIRMAN: He said what he required and I just wanted to know what he had, to put it on the record

at the same point. We have heard it before.

MR. FRAWLEY: Thank you, Mr. Chairman.

Q Can you give me any idea as to the volume of oil that would be delivered to tank cars in the year 1939, say?

A No, I do not believe I can.

Q You did not do any of that work last year?

A No.

Q Mr. Moore will have to tell us that?

A Yes.

Q And to tank trucks, he can easily tell us that? It was very little and perhaps none?

A There was practically none last year.

Q The other questions on this sheet you have endeavoured to answer them in these larger statements?

A Yes sir.

Q And perhaps it is fair to say we have not got to pay a great deal of attention to your 1,000 barrel a day figure, or am I confused about that? You say you want 120,000 of storage?

A Yes.

Q And then the manner in which it is going to be taken out of that storage is the next important item, of course, and the speed at which it is going to be taken out?

A Yes.

Q If it is taken out at the rate of 8,000 barrels per day the operating charges are one thing, and if it is to be used at the rate of 1,000 barrels a day the operating charges will be something else.

A Yes, it means a larger set-up.

Q Then we will leave that. What is the situation with regard to the refinery? Would you make a simple statement

about that, Mr. Coultis, so that I for one will finally understand what you regard is the situation. What is your statement to this Commission as to what should be the situation with regard to the Imperial, the British American and the Lion?

A There are two ways of handling that, sir. Everything going to terminal tankage and then re-distributing.

Q Yes?

A Or going direct to the refineries located in Calgary.

Q By service lines?

A Yes.

Q Which is the one. Which one of them is the one that commends itself to you, I presume, as the sensible way of dealing with it?

A Well I assume from the information brought out through this Commission hearing, it is the desire of the refineries to take their oil directly to their plant.

Q Cannot we pretty well abandon any other idea. The British American has assisted us in coming to a conclusion. They have asked for and obtained a pipe line connection?

A Yes.

Q So they apparently desire to take the oil direct from your trunk line to their refinery?

A Yes.

Q And we have Mr. Plotkins storming at the gate for a similar connection?

A Yes.

Q So can we assume there is going to be no taking it to the terminal storage, as you say, and redistributing it, because that would mean a pretty big investment?

A I believe that is the way it will be handled eventually,

the way we are outlining it.

Q By service lines direct to the refineries?

A Yes.

MR. NOLAN: I would not like Mr. Coultis to become involved in expressing the views of the B.A., or of Mr. Plotkins, who, if my memoery serves me, have slightly different ideas as to the necessity of terminal storage, even if they do take the oil direct from the pipe line.

MR. FRAWLEY: Quite so. At the moment I want Mr. Coultis, for whom I have great respect,

MR. NOLAN: I am sure it is mutual.

MR. FRAWLEY: I trust it is. I can probably say more for Mr.Coultis in that respect than for you?

A It is dangerous.

Q Now, Mr.Coultis, the way that the B.A., are taking it now, that seems to be the sensible way in which they should be served?

A Well it is apparently the way in which they wish to take it.

Q We can add that to it without becoming too involved. Now who should build these lines in your humble submission?

A I cannot change my opinion.

Q What is it?

A From the expression I have already made.

Q Unless you have come to a better one?

A No sir, I have not. I think that is still good. The refiner builds his own lines to the trunk line.

Q He comes to you?

A Yes.

Q And if he is a couple of miles away he will come at a little more expense than if he was 1000 feet away?

A Yes.

Q But he comes in any event?

A Yes.

Q And you break your line at the most convenient point to build the service line over to his refinery?

A Yes.

Q If that is so he could come from Red Deer with a service line if he likes? He is coming at his own expense?

A Yes.

Q In that statement are you bothered about how far the pipe line operator should go? I presume if a refinery was only 100 feet away you might not hesitate so long as to whether you should put that short service line over?

A No, but I would want to play fair with the other fellow. So he would build his too.

Q You bet. So we have a principle. I only mentioned that to make it clear. You look at the matter on the ground of principle, and you say he will come to this trunk line from whatever distance it is?

A Yes.

Q At his own expense?

A Yes, regardless.

Q That being so the pipe line rate, whatever it is, is just to get the oil? But perhaps there is a difference there. I should put that in the form of a question. We have your Company connected both by service line and your trunk line to their refinery?

A Yes.

Q In your submission what should the rate that they pay cover? What service or services should the rate which they pay cover?

A With reference to these branch lines:

Q That is what I am thinking of?

A I think, Sir, that would be governed by the number of barrels he would expect to take through that line, and the length of his line.

Q Well. You would think there the distance away from the trunk line does make a difference?

A I think so.

Q You do not think it makes any difference whether he should pay for the line or in the capital investment, but you think it does make a difference when you come to service that refinery?

A Yes.

Q First of all, should he pay one rate or two rates in your submission?

A Possibly one rate would handle it within a given distance.

Q If he was not too far away from your trunk line you would be prepared to gather, transport by trunk line and transport by service line, all for the one charge?

A I would not like to make a definite answer on that, Sir. But it would look reasonable if he was located near the line and handled a sufficient volume to pay for the additional service.

Q Suppose, Mr.Coultis, to make it clear that the rate is as we say "X" cents, that takes it to the terminus of the pipe line?

A Yes.

Q At the moment that happens to be the Imperial refinery?

A Yes.

Q How many miles is that from the commencement of your trunk line, about 30 miles?

A 30 miles.

Q It is 30 miles to the Imperial Refinery, to the terminus?

A Yes.

Q I do not know just where Mr. Harvie's service line comes off, but assuming it is not any more than 30 miles from the Turner Valley end of the trunk line, I suppose you would be just as willing to send oil to Mr. Harvie's refinery if it was not any more than 30 miles, as to the Imperial Refinery at the end of the line?

A I think that is reasonable, if he intends to take sufficient oil to justify it.

Q Apart from that at the moment. Will you say subject to that you think that would be a fair statement to make, subject to the quantity?

A I think reasonably so.

Q Now let us go on. Let us say Mr. Munro would come to your, trunk line and he is, we will say, three times the distance away that Mr. Harvie is. He is about three or four times?

A Yes.

Q Suppose he is four times as far as Mr. Harvie, but he still comes and builds a service line to your trunk line, and you, we will say, give him a connection. What is the situation there? You do not think you should be expected to send oil from the end of your trunk line to Mr. Munro's refinery for the same "X" cents you would charge Mr. Harvie or the Imperial Oil?

A I would think there should be an area limiting that, otherwise the man in Red Deer, as you suggested, might also ask for a service line there.

Q The answer is there should be a zone around the Calgary terminus of your pipe line, within which zone you would make deliveries at the same price as you would send it

through to the terminal.

A Well I think something would be worked out on that basis, because it is necessary to send gaugers to visit every location where oil is being delivered. That is mileage and transportation, and that is sending up your men there and considerable lost time.

Q Assuming there would be some - assuming a reasonable zone could be set up within that zone there should be also assuming they have built their service lines to your pipe line, or your trunk line, then the rate in your view should be the same whether it is to these refineries or to your own terminal.

A I think something on that line could be worked out.

Q Now we have your terminal at the Calgary end, and we have separate from that the Imperial Refinery?

A Yes.

Q At some distance in any event?

A Yes.

Q What is the situation there?. Would you be content to deliver oil into the Imperial Refinery tanks at the same rate as to the British American Refinery tanks for instance?

A Providing he laid his lines to the terminal.

Q Or put in a connection to your trunk line, whichever seemed to be the more convenient?

A Yes.

Q If we regarded all of the refineries as connected with your trunk line by service lines, it would simplify the matter would it not? Even the Imperial. If we thought of the Imperial Refinery as being connected to your trunk lines with a service line rather than connected to your terminal, don't you think it would help simplify the issue

for us? Then they would be all the same?

A It would not make very much difference, not at the present time.

Q Practically the way it sets at the moment?

A Because it is his trouble to get that out of those tanks. I do not pump it to him.

Q And that being so the only function of your terminal storage would be, as you explained a moment ago to the Chairman, the only function of that terminal storage is to supply tank trucks and tank cars, and nothing more?

A Yes.

THE CHAIRMAN: And the occasional emergency?

MR. FRAWLEY: An occasional emergency.

THE CHAIRMAN: For which he presently has more tankage than he requires.

MR. FRAWLEY: Yes, that is so. Well I think I shall have to leave any further examination of Mr. Coultis now, and I would ask Mr. Nolan to have Mr. Moore, the superintendent of the Calgary Refinery, here this afternoon at 2 o'clock.

THE CHAIRMAN: Yes. Well I think we will not start again. Mr. Coultis, of course, will be back?

MR. FRAWLEY: Oh yes, at 2 o'clock.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

2 P. M. Session.

SAMUEL COULTIS, having been recalled:

MR. FRAWLEY: All right, Mr. Plotkins.

Q TO MR. PLOTKINS: Mr. Coultis, I notice by a casual examination of the statement that your company has not provided for the risk of the movement of oil suddenly ceasing from Turner Valley, as we have been given to understand in the earlier testimony that such might be the case, and that you have asked the Commission to take into consideration when they come to setting the pipeline rate, you have given us here a basis, on a 10-year basis amortization?

A Yes.

Q Well, why has not that angle been considered?

A We simply took the figure of 10% pending some decision as to what amortization it should be, simply for setting up these rough figures.

Q Yes, but if these tanks and this steam plant, they would be of very little use to you if you didn't have any oil coming into the terminal to be distributed?

A No, I don't think so, I don't think there would be much sale for them.

Q Not much sale for that equipment?

A No.

Q So it must be an oversight on the part of your company?

A Oh, possibly, I just made up these figures to meet the present situation.

Q But you really didn't take it seriously?

A Oh, yes.

Q You took it seriously but you overlooked a very important aspect?

A No doubt.

Q In making up these statements you no doubt consulted the records of your company to find what had been the average movement of tank cars in the past?

A Not a great deal, Mr. Plotkins, because I was asked to set up these figures to meet a definite situation and that is what I strove to do.

Q But you were asked to submit figures which would fit an actual situation?

A Yes.

Q Well, what is the actual situation, what was the tank car loading?

A We figure it will be somewhere between 8,000 and 1,000 barrels and we gave the two figures.

Q Oh, I see that, that is self-evident from the statement?

A Yes.

Q But I mean what has been the movement, so that we can get some figure that will be actual for this Commission to consider.

A In tank cars, sir?

Q In tank cars.

A I have not that figure in my head.

Q No, but did you consult the records of your company?

A No.

Q You just took a hypothetical figure?

A Yes.

Q Would it not have occurred to you as a practical man that first you must know what you had to move?

A Yes.

Q Why would you not take that ordinary step to ascertain what had been moved?

A I took the maximum of 8,000 barrels per day, sir, and

set up the 1,000 barrel figure in case the picture changed downward.

Q Then we are to assume that 8,000 barrels has been your average handling and loading of tank cars?

A You can assume, Sir, that 8,000 barrels is the top figure that I figured on.

Q Not having in mind what the actual movements were?

A Not other than that.

Q Now, if you have not taken into consideration a sudden stoppage of oil, or the gradual stoppage over a period, it may be two years or three years, why have you not taken depreciation on these big tanks at a longer period then 10 years?

A We took an artificial figure of 10 years in order to set up this calculation.

Q Then is it fair to say that you have visualized a centre or a terminal that would endure for quite a long time irrespective of whether the oil came from Turner Valley or from any other field in the immediate vicinity, in the Foothills?

A Yes.

Q So that this terminal may be considered as a permanent asset?

A Yes.

Q Now, as a permanent asset you have had quite a bit of experience with large tanks, you can visualize an 80,000 or a 40,000 barrel tank, and they are made of quite heavy steel, you have most likely seen tanks in the service of your company for 20 years, 30 years?

A I cannot say as to that, Sir. I have not the age of the different tanks in the company's service.

Q You have seen the tanks in the refinery yards at Calgary?

A Oh, yes.

Q 40,000 and 80,000?

A Yes.

Q How long have they been there?

A Some of them since the refinery was built.

Q That is quite a long while ago?

A Quite a while.

Q Have you had occasion to examine them in the last year or so?

A No, sir, I have not, other than the three tanks.

Q Other than which?

A Other than the three tanks we use.

Q Other than the three tanks you are using?

A Yes.

Q These tanks you are using now, how old are they?

A I cannot remember, Sir; I think that was given at one time.

MR. FRAWLEY: It is in the evidence.

WITNESS: I cannot say, Sir.

Q MR. PLOTKINS: As an engineer, without going into the actual tanks, you know pretty well the construction of these tanks?

A Yes.

Q Would you say that 10 years would be a reasonable time to depreciate them?

A I have never seen the bottoms of them, I don't know.

Q You have never seen the bottoms of them?

A No.

Q Would you consider Turner Valley crude very corrosive to

store?

A Reasonably so, Sir.

Q Reasonably so?

A Yes.

Q Well, I will leave that, but it is normally the practice in the business to depreciate big tanks in 20 years, you know that, do you?

A No, I do not know, I just took this figure.

Q If you were to locate this terminal at various sites which appear available in the City here, close to the Imperial Oil and to the railway, on the Heights, would it not be possible to dispense with a great deal of this investment in steam plants, pumps, etc.?

A I do not see where it would effect the steam plant in the least.

Q Well, in connection with pumps, you intend to run your pumps with electricity?

A I do, Sir.

Q Would it not dispense with this equipment?

A What equipment?

Q The pumping equipment?

A It might not.

Q It might not?

A No, depending on how much oil you want to deliver through your line.

Q Well, have you ever been at Cutbank at the loading racks which were used for loading Imperial Oil cars?

A At Cutbank?

Q Yes?

A No, Sir.

Q There the tanks are located on a height and a large pipe and there is no pumping equipment, it comes down

by gravity, and you know a 3-inch line will deliver 125 or 150 gallons a minute by ordinary gravity?

A Yes.

Q With any big head?

A Yes.

Q So it is quite practical----

THE CHAIRMAN: Now, let him answer these questions; you see, these statements are of no valuo to us in the world unless you get the witness to agree to them or you go in yourself and swear to them, but right now you are just going ahead talking.

Q MR. PLOTKINS: It is possible with a comparatively small pipe to load by gravity if the heighth is reasonable?

A Oh, yes, yes, if you can get a head.

Q And under them conditions it would be a question of controlling the outlet, everything would come down by gravity?

A Yes, if you had sufficient heighth.

Q The same for truck loading, you could have a line going to the truck loading rack if gravity were available?

A Yes, if you could maintain that ideal situation with reference to your railway.

Q Under the conditions that you described this morning, namely, where each refinery would have its own delivery line, the Royalite would be confined, insofar as loading tank cars, practically to its own business, is that correct; in other words, if the British American, which has now a direct connection, were loading its own tank cars which it would do, would you agree with that,

that it is going to load its own tank cars?

A Well, they have not advised me so yet. I assume they possibly will.

Q With a 5 cent per barrel charge, you will naturally assume they are going to do their own loading?

A All I can do, Sir, is to assume it.

Q Will you assume that they are going to load their own tanks, and the Lion Refinery will do the same, I can speak for them, and we will assume that they are going to do the same?

A Exactly.

Q That would leave the Royalite loading only for its own refineries and any other independent producers in the field that might want tank cars loaded, would that be correct?

A Not for the Royalite's own refinery, you mean the Royalite's customers?

Q What would be left if the refineries in Calgary took care of their own refineries?

A Well, the B. A., and Imperial and your own?

Q Yes?

A There would be the other customers who desired crude oil by tank car.

Q There would be the other refineries other than the Imperial Refinery?

A Yes, that is what I assume.

Q At the presnnt time you have how many?

A Three or four.

Q So that these facilities which we are now discussing would be in the main to take care of the Imperial Oil requirements?

A No, not necessarily.

Q Well, how much movement would you consider these three or four independents that would want their tank cars loaded would amount to in comparison to your own?

A I do not know how many will require oil, three or four required it last year, and you are the only man that has informed me that you intend to do your own tank car shipping.

Q Can you tell us how much crude you did load for other companies outside of these three refineries last year?

A No, Sir, I do not have those figures here.

Q Assuming that it is 1,000 barrels, would that be a high figure?

A I don't think so.

Q You don't think so?

A No.

Q And what are the requirements of the Imperial Oil for its Regina refinery, do you know?

A I will have to leave Mr. Moore to answer that.

Q All right, we will not go into that.

MR. FRAWLEY: I was going to say, Mr. Plotkins, Mr. Moore is here and he can tell you that.

MR. PLOTKINS: Very well, we will leave that.

Q MR. PLOTKINS: Under your arrangement, in the statement, in your estimate there is a cost of 17 cents per barrel to load trucks, is that correct?

A At the rate of 100 barrels per day.

Q Yes, that is correct?

A Yes.

Q Would you believe that you will get much truck loading at that figure?

A I do not know.

Q Would it be right to say that that figure will discourage all truck loading at the terminal of the pipeline?

A It probably would, if there is no more business than 100 barrels per day.

Q So that for all practical purposes the small independent that wanted his oil in truck loads would not be able to get it through that channel?

A No, I would not say he would not be able to get it.

Q Well, you have just told us that it would not be, you would not expect any business because of the high cost; well, now, if it costs too much you will have to forget about getting it, would it not be reasonable to assume that?

A Well, you might. The figures are not set up for that purpose though.

Q Well, now on Exhibit "240" on the second page, I notice under Item 2 "Tank Car loading facilities", "Spur Track Installation, estimate", 12 cars, $15,000.00; 4 cars, $5,000.00, how are those figures arrived at?

A Those were estimates.

Q Well, by whom?

A By myself.

Q You have had some experience in connection with spur tracks-----

THE CHAIRMAN: Just where are you reading at, Mr. Plotkins?

MR. PLOTKINS: From Exhibit "240" at the top of page 2, item No. 2.

MR. FRAWLEY: It should be amplified there slightly by the addition of a few words, it is intended to state, Mr. Coultis, that those figures would provide spur tracks which would load those number of cars?

A Yes.

MR. FRAWLEY: 4 cars, and what is the other number?

MR. PLOTKINS: 12 cars.

WITNESS: It would give you a spur track or siding into some location and give you the necessary track at your loading rack.

Q MR. PLOTKINS: Does this provide for a spur only sufficient to handle four or five cars for $5,000.00?

A That is what I estimated it would be.

Q It doesn't provide for any long branch line?

A No, you see that is very carefully marked "Estimate", marked for anyone who wishes to read it, there are no figures to back this up. I had no idea where this tankage would be situated; therefore, I was not in a position to go to the railway company and ask them to work it out or help me to work it out on any footage basis because I am not sure; that is an estimate of what may be required.

Q So you do not have any definite number of feet of siding in mind?

A No, I do not, Sir, I do not know where this location will be.

Q Well, for your information, and it may clarify it in your own mind, to give me a reasonable answer, the Lion Refinery has a 6 car siding that cost $940.00, and it

had half the gravel and half the ties left, - I will not go into explanations why, but that is the situation, - so I am going to ask you to investigate-----

THE CHAIRMAN: First, you assume that to be the fact?

MR. PLOTKINS: Yes, assuming that to be the fact.

THE CHAIRMAN: Then what?

Q MR. PLOTKINS: Would you still say that a 4-car loading, a 4-car spur track would cost anywhere near $5,000.00?

A No, Sir, I would not say it would cost any particular sum; I would say that it could cost $5,000.00; your refinery is on the mainline of the C. P. R., and your siding is very short.

Q All right, are some of these others estimated in the same manner?

A If they are they are indicated so.

Q How do you arrive at the figure of .03385 as to the cost of loading a barrel of oil into a tank car, what does that represent?

A That represents the cost based on the above figures.

Q Does that take into consideration a portion of the cost of putting the tanks, the terminal tankage, and amortizing it and protecting it with fire-fighting equipment and insurance and so forth?

A Yes.

Q So that in considering the rate, the base-rate for the pipeline charges to be made to refineries, part of this terminal storage should be borne by the loading department,

tank car loading department, is that correct?

A Would you please state that again?

Q You have provided a set of terminal tanks?

A Yes.

Q And, as I understand it, those tanks will be used for working storage, is that right?

A The loading tank trucks, loading tank trucks, tank cars and possibly for storage for some other refineries.

Q And this storage for some other refineries is going to be part of this rate?

A I assume it will be.

Q I mean it is working storage you have refernnce to?

A Yes, working storage.

Q So that the terminal tankage should be divided, or at least the cost-----

Q THE CHAIRMAN: Now, would you mind pausing just there, Mr. Plotkins, I understood the witness to say this morning that that storage for refineries was only, not to carry on a storage business for the refinery but to meet a possible emergency, are you departing from that position at all?

A No, it is working storage for loading tank cars and tank trucks and held there as an emergency storage in case of an emergency for the refineries.

Q That is all; I just wanted to know if that was being departed from?

A No.

Q MR. PLOTKINS: Is it your opinion then, Mr. Coultis, that in the rate the pipeline company should

provide emergency storage for the refineries?

A Well, I would think that the pipeline company would be expected to take care of their customers in the case of an emergency.

Q So it is quite proper to divide this terminal storage into two functions?

A You possibly could, it is not large.

Q It is not which?

A It is not large.

Q Not large?

A No.

Q The emergency storage you have reference to then would only be a minor matter; in other words, the storage itself would only be used for that purpose a few times a year?

A Assuming that all the refineries took their stock.

Q THE CHAIRMAN: Do you make a distinction between emergency storage and other storage for refineries, I would just like to understand that while we are on the subject; of course, if I might interrupt you, Mr. Plotkins.

MR. PLOTKINS: Yes, Mr. Chairman.

Q THE CHAIRMAN: Why should you be providing emergency storage for your customers any more than any other storage; in short, there may be a good reason for it, and I would just like to know why the refineries should not look after their own emergencies as other people in other businesses do when they contemplate emergencies and provide for them?

A The way I look at it, Sir, we are handling, delivering oil to these different customers, the time may arrive, either through explosion or fire or other trouble, when they would desire that we should hold a certain amount of

oil for short intervals in tankage?

Q I know they might desire that but they might desire you to hold all their oil too, but what I am getting at is why should they not pay the money to protect them~~selves~~ against emergency as well as pay money to provide their ~~ordinary~~ storage, I just want to understand ~~why~~ you think they should not; perhaps they should, I just want to know why?

A I don't consider these 3-40's would provide very much storage ~~beyond the working storage necessary~~ to operate this line.

(Page 6487 follows.)

Q THE CHAIRMAN: Well of course, if that does not provide emergency storage then of course there is no use talking about it. If it does provide emergency storage why should it. That is all I want to know. Supposing Mr. Plotkins wanted to protect himself against emergencies, why should he put you to that cost?

A I do not think he would plan to have us protect him against emergency. It is the unforeseen emergency that might arise, when we might be called upon and he demands assistance.

Q Which he is as capable of contemplating as you are, and providing for?

A Yes.

Q Suppose he has to have a tank removed from these every day working tanks to protect him against emergency?

A Yes.

Q Is that all?

A Yes, and that is provided of course in a fire or an explosion that all of his tanks would not be damaged.

Q MR. PLOTKINS: We will assume, Mr. Coultis, that every refinery had sufficient storage tankage to take care of all its requirements, even in an emergency. Would you be able to operate this pipe line without some working storage at the terminal?

A No.

Q You still would have to have some safety valve at the end to take care of any working conditions?

A Yes sir.

Q So that is it fair then to say that you would still require these three 40,000 barrel tanks, whether you loaded tank cars or whether you do not?

A Assuming that you do not load any tank cars?

Q Yes?

A I do not think you would need that much.

Q You do not think you would need that much?

A No.

Q No.No tank cars nor tank trucks I assume you mean?

Q Well tanks trucks and tank cars, we will group them for the purposes of cross-examination?

A Yes.

Q How much working storage then would you need if you were delivering every barrel, the Imperial share to the Imperial Refinery, the British American share to the British American Refinery, and the Lion share to the Lion Refinery and these three refineries take care of all tank car shipments, which possibly is one of the ways that we should picture this situation. What would be your situation then as regards the amount of storage, working storage you would require at the terminal?

A I would feel, Mr. Plotkins, that you should still have approximately what I have estimated there for. Otherwise the pipe line operation would be an intermittent affair, possibly during the winter months.

Q So that you now tell us you will need 120,000 barrels for working storage, whether there is any tank car loading or whether there is not?

THE CHAIRMAN: I did not understand him to say that.

Q MR. PLOTKINS: Is that correct?

A This oil that is loaded in tank cars for other customers will naturally, I assume, come out of this terminal storage. Other than individual refineries that own their

own shipping facilities.

Q I am assuming with you that each refinery will have its own shipping facilities, tank car shipping facilities and truck loading, and handling facilities?

A Yes.

Q And all your terminal is called upon is to deliver the oil direct through the pipe line, would it be possible to operate without any storage?

A And no tank car shipments whatever are made.

Q At the terminal end, no tank car shipments and no truck deliveries?

A Just delivering the oil to the three refineries in Calgary direct?

Q Yes, as the Chairman has pointed out it is perfectly possible for each refinery to meet all the conditions that the pipe line would impose on it. Your contract provides that. So would it be possible to operate the terminal under them conditions in your opininn?

A It might be, but it might be very unsatisfactory also.

Q Would it be practical?

A I do not think so.

Q MR. COMMISSIONER LIPSETT: How would it take care of a shipment that you make for a company like the Anglo-Canadian?

A Mr. Plotkins is assuming that there won't be any.

MR. FRAWLEY: He is assuming for this question there will be none of that.

Q MR. PLOTKINS: How much storage under them conditions? That would reduce the amount of terminal storage you would need for practical operation?

A I assume that it would.

Q How much would it reduce it?

A I do not know.

Q Well can you figure that out and advise the Commission?

A I can guess at it.

Q You can guess at it?

A That is the best I can do.

Q What would be your present guess?

A Just about the storage I have here.

Q So it makes no difference then whether you load tank cars.....

A Not if you are going to operate the system to meet all conditions and give service to its customers.

Q The same storage could fulfil a double purpose under this proposed terminal arrangement?

A To some extent, yes.

Q Well, insofar as tanks are concerned they could be used for both purposes, both working storage and for loading tank cars and trucks?

A Yes.

Q And it would require no more and no less for practical purposes, whether you load tank cars or whether you don't? I want to make that clear.

A Whether you load tank cars or not? Naturally you would assume it would require less.

Q I am asking your opinion from a practical operation standpoint?

A I would consider it would require less storage if there were no shipments made other than direct to the refineries, and you were willing to shut the pipe line down when the refinery refused to take any more oil, for any reason. It would be intermittent operation.

Q You have advised us before that in your opinion the three tanks are necessary, even though you do not load any tank cars or load any trucks? You say that the same amount of tankage will also take care of tank trucks and tank car loadings?

A That is right.

Q So we will let it stand at that. Now in your experience, in these different refineries they can load tank cars along with their other operations. I mean that is the practice at the present time. They have tank car lots and they load tank trucks?

A Yes.

Q It is much more economical to load tank cars of crude at the same time with the same crew?

A I do not know how they operate their loading racks.

Q You, as a practical operator would assume safely without taking any chances that if you already have a crew as you pointed out this morning, that is loading 10 cars, they can load 20 cars at very little extra cost?

A Providing you have a large enough crew.

Q We will assume that they have a large enough crew, would you not say then it would be more economical for the refineries to do their own loading than for the terminal to do it?

A Oh, I assume it would be, sir.

Q From a practical standpoint we could say that under the proposed arrangement loading tank cars and tank trucks would be much more economically done by the refineries themselves?

A Providing the volume shipped is very small, reasonably small.

Q Is reasonably small?

A Yes.

Q If it were large would not the same conditions apply, in proportion?

A It would in proportion, yes, to some extent.

Q With the terminal delivering oil direct to each refinery, each refinery is then in a position to do its own loading, you will agree to that?

A They would be in a position, yes.

Q And the question of the rate of loading a tank car or to load a tank truck will become competitive will it not?

A The rate?

Q The rate. In other words, a refinery in Saskatchewan wanting a tank car loaded will be able to go to three people and get quotations as to how much theywill charge to load that tank car for them.

A Assuming the rate is not set.

Q The crude has been delivered to the refiner. It is his crude. He is in a position to load it or sell it to whoever he pleases. A refiner in Saskatchewan wanting to either buy crude or have it loaded for him, his own crude, will then be able to go to any one of the three refineries and make the arrangements, is that not a fact?

A He naturally would make the arrangements with any refinery who would load it.

Q Whether the refinery owns the crude or whether it does not, the refiner will be able to make arrangements with the Royalite Pipe Line to get anybody's crude that has been purchased by the Saskatchewan refinery delivered to its tanks.

THE CHAIRMAN: I suppose Mr. Smith has been

notified, Mr. Frawley, has he?

MR. FRAWLEY: Acting for the.....

THE CHAIRMAN: The Anglo-Canadian?

MR. FRAWLEY: No, but there is an official of the Anglo-Canadian here this afternoon.

Q MR. PLOTKINS: I am assuming the picture where a refinery will have a direct connection, and will refine its own oil, its own tanks, etc. A refiner in Saskatchewan could make an arrangement with the Anglo-Canadian, an oil producing company in the Valley, to buy 5000 barrels of crude and he will be able to come to me or to the British American or the Imperial and say "I have bought 5000 barrels of crude from the Anglo-Canadian Producing Company and I would like to know what you will charge me to load it into my tank cars for delivery to my refinery." Each refinery will be in a position to compete, is that not right?

A I assume they will.

Q So that your rate you have estimated will go by the board and you will put your price down to what you think the business, or to the figure you think you will get the business for. In other words, the Imperial will then be in a position of finding out what other refineries will do it for under their conditions, and will either meet the price or lose the business. That is correct to assume that?

A Well I am not in a position to answer that, Mr. Plotkins. I have not gone into that phase of it.

Q But as a reasonably minded man, with logic, you would assume that to be the condition?

A I presume so.

Q So that we can disregard for practical purposes these figures of 15 cents and 17 cents per barrel, for loading tank cars?

A No, you cannot disregard them. If you are asking me to set up a complete new terminal facilities to meet all these conditions, You expect that to be put up in a workmanlike manner to serve its customers and to handle the number of barrels per day that is stated, then I assume it will cost in that neighbourhood.

Q You have treated the subject in an abstract way?

A I have treated it as I would estimate on any new construction.

Q THE CHAIRMAN: Just apropos of what Mr. Plotkins has been asking you about, You have been asked to make a lot of assumptions and I will ask you to make another. Assuming that the three refineries that have been mentioned, the Imperial, B.A., and Lion, all asked too much for this handling, what would happen to the person who wanted to refine his product elsewhere, and who needod to get it to his refinery by tank cars.

A Well he would probably stir things up.

Q Yes, but unless he stirred up effectively he would have no protection from anything done by any Utility Board, would he? Because as yet the three refineries have not been made public utilities. He would be entirely in a different position from those three refineries wouldn't he?

A I assume he would.

Q MR. PLOTKINS: Mr. Coultis, would you consider that a profitable operation to load tank cars for this proposed terminal under existing conditions?

S. G. Coultis.

A On this set-up?

Q No, not on this set-up. Just as a business proposition.

A It would depend on the rate.

Q On your present rate of 5 cents a barrel?

A Mr. Moore will have to answer that. He did all the loading.

Q If the Lion Refinery provides its own storage and provides its own connection direct to your pipe line, you are willing, your company is willing to transport its oil from Turner Valley into the refinery tanks at the present rate without any surcharge or without any other charges?

A I think you have the outline very clearly set out in the contract which you have.

Q Forget about the contract for the time being. I am asking in connection with the situation you exposed this morning. If I remember right you said if each refinery would go to the trunk line, put in its own pipe line at its own expense and providing it was not too great a distance so that the cost of performing that service would not be excessive, in other words I expect you had in mind if the line was long, it would cost more to pump it to the tanks. I would like to clarify that angle first?

A It naturally would, yes sir.

Q Did you have in mind any particular length of line?

A No.

Q You did not have that in mind?

A No.

Q Would you consider the present line of the British American would justify your Company demanding an extra charge for delivering it.....

A Not at the present capacity. Not at the volume going through

S. G. Coultis.

and the capacity of that line.

Q Has volume anything to do with cost of putting it through a line?

A Yes sir, through the certain line.

Q So that the greater volume you put through that line the less cost?

A Not necessarily. You might set up higher line friction.

Q What?

A The larger the volume and the higher the pressure that would be required.

Q What is the length of line between the terminal or the Imperial, I do not know exactly where the British American has connected its pipe line, but from the point where it connects with the trunk line to its tanks, what is the distance?

A A mile and a half to two miles.

Q Under those conditions that pertain to the British American Refinery, you feel there should be no extra charge?

A Not in that particular location.

Q Would you consider that in the case of the Lion Refinery with 1500, well we will say 1750 feet to the tanks, and a volume of 500 barrels per day, that there should be any extra charge to deliver oil to the tanks?

A Not if the other man is not charged.

Q What?

A Not if the other refinery is not charged.

Q So that the Lion Refinery in your opinion at the present time would be entitled to receive its oil at 15 cents a barrel delivered into its tanks?

A Providing there is no charge made to the other refinery, yes sir.

Q You stated this morning that regardless of the crude deliveries, that is whether they were large or whether they were small, you would need four gaugers, that is correct is it?

A Yes sir.

Q So that whether you delivered to three refineries or to four refineries, you would still require four gaugers?

A I assume we would. That is what I estimate on.

Q So that with only three refineries to deliver to, would you say you would require more than four gaugers?

A Not if they were co-operating with me. If they all wanted their oil at the one time I would need more.

Q Well, at the present time, under present conditions pertaining to the Lion Refinery and to the British American and the Imperial, would you feel that you would not get the necessary co-operation in order to make the operation as efficient as possible with the least cost?

A I have no reason to believe I would not.

Q So that if you delivered to the Lion Refinery it would not require any additional gaugers?

A I would require a gauger on your property during the time I was delivering oil to you.

Q Would it not be the same with the other refineries?

A It is the same.

Q So these four gaugers will do the work?

A Provided I can route these shipments so that the four men could handle it. That is what I hope to do.

Q Your Company nominates the time when the refinery has to take the oil?

A We have been able to do so to date.

Q Yes. There is no reason to believe you won't continue

to do so?

A I do not know.

Q It is within your control. You say "Get ready, I am going to deliver oil to you." And we have to get ready or pass up our turn?

A That is fine.

Q That is correct is it not?

A It is to date, and I hope it will be correct in the future.

Q Assuming you continue on that basis, your four gaugers would look after it except possibly if more refineries start up and you have more work. But under present conditions you stated this morning, and I am asking you if you still agree with it, that a maximum of four gaugers you ask for in this estimate will be all you require?

A It will, as I stated, provided I can direct the delivery and route it to fit that condition.

Q Would it be right to say providing you can continue to do that?

A Yes.

Q You are doing it at the present time?

A We are doing it at the present time.

Q So that in this proposed agreement with the Lion Refinery where you make provision for charging $1.00 an hour to keep a man there all the time you will be duplicating the expense when you have the four gaugers already provided for?

A Yes sir.

Q So there is no necessity for charging any other refinery for the services of a gauger? It could be all included in the rate?

A If it is included in the rate, yes.

Q Well, is not delivery a function of the pipe line?

A Yes.

Q So that gauging could be as well included in the rate that the pipe line charges for gathering, transporting and delivering oil?

A It could be a part of the function, and that again depends on the volume.

Q We will assume the volume is reasonable. What do you mean by volume? You mean if there is 50 barrels a day you might not be able to make it worth while for the Pipe Line Company to undertake deliveries?

A Mr. Plotkins, you refused or objected to put up a 1000 barrel tank at your refinery to take delivery because you did not want to spend your money to put up that sized tank. That means I would have to put a gauger over in your yard every day.

Q You mean if I objected. I have not actually objected have I?

A I think the records show you objected to putting up a 1000 barrel tank.

Q Well I think your memory must be faulty. We already have two 1000 barrel tanks.

A I am not discussing what you have. I am discussing your objection in this previous hearing.

Q I think if you will refer to the record it refers to three 1000 barrel tanks?

A And I expect under that condition you to pay for the gauger if you insist on small deliveries to be made.

Q Is not that a mis-statement, Mr. Coultis. Your contract provides for 3000 barrels and still you insist on a gauger at $1.00 an hour. So it is not a question of 1000

barrels or any small deliveries?

A Did you not state on the record you objected to putting up 3000 barrels storage.

Q Forget about the records, I do not even remember what was said. The fact remains in this proposed contract that your Company has submitted to the Lion Refinery it is stipulated that the minimum deliveries will be 3000 barrels per pump?

A Yes.

Q It is also stipulated that the Lion Refining Company will pay $1.00 an hour for a gauger all the time that the pumping is going on?

A Yes.

Q Would you think then that 3000 barrels is unreasonably small?

A I think it is the minimum.

Q The minimum?

A Yes.

Q Do you want to put every refinery, any future refinery in a position of having to take 3000 barrels delivery at one time?

A I expect them, yes, to take at least 3000.

Q So you expect to succeed to impose that condition?

A I am still going to try.

Q There is no law against trying?

A No.

Q So that we can now agree that the function of the Royalite pipe line could include delivery and furnishing of a gauger in the rates for deliveries such as it contemplat d to the Lion, British American and the Imperial Oil, is that correct?

A For minimum amounts. There might be something worked out on a large volume. But for minimum amounts I feel that we should be compensated for the gauger that is required to remain on the job for eight hours a day to make one delivery.

THE CHAIRMAN: As I understand Mr. Plotkins he is putting to you that all this should be included in the rate, if I understood him. What do you say is the objection to that? Would you want to be paid for the gauger? Why do you say that that payment should not be in the rate? Provided you get payment what do you care how you get it. There might be a good reason but I just want to understand you?

A I do not think it makes any difference.

Q Oh, I understood you to say you thought it should not be in the rate?

A I did not see any objection to it being in the rate, Sir.

Q I can conceive of someone else perhaps objecting, but I did not see why you should, someone who was not concerned with the services might object, but if you get it....

Q MR. FRAILEY: Do I understand that if it is in the rate everybody pays it. The producer in Turner Valley. There is no extra charge imposed upon this small taker, these small refinery takers, so long as you understand?

A No, we asked Mr. Plotkins originally for to pay for the gauger during delivery, that is over and above any pipe line rate he would pay.

Q At that time, yes.

A I am not trying to change that.

Q Then it is not going to be in the rate. This is a charge

over and above the rate you are seeking to impose.....

A In Mr. Plotkins' case in the former discussions that is what was meant. That to give him that service we asked that he pay for the use of the gauger during that delivery.

Q Then I, for one, do not understand. That particular extra charge then is not going to go in the rate, it is a charge against Mr. Plotkins for that time?

A In his instance, yes.

(Go to Page 6503).

MAJOR LIPSETT: I think Mr. Coultis said, Mr. Frawley, a few minutes ago that if that particular service was going to be included in the rate, in the case of the B. A. that he would not object to it being included in the rate also given to Mr. Plotkins?

A That is right.

MR. FRAWLEY: Oh I see.

WITNESS: That is true, sir.

Q MAJOR LIPSETT: Mr. Coultis, so that it may be before Mr. Plotkins and yourself, Mr. Plotkins was putting to you three separate loading operations, one by himself and one by Imperial and one by B. A., that is into tank cars?

A Yes.

Q Now that means a capital expenditure for three different loading arrangements I take it?

A Yes.

Q Supposing that it were included in the rate so that you would be paid for it and that that loading into tank cars was treated as deliveries to the tank cars, just the same as delivery to refineries?

A Yes.

Q And included in the rate?

A Yes.

Q Would it be cheaper to do that and more economical to do that in one operation by the pipeline company rather than that each refinery should do it, you see there would be less capital outlay?

A Well all of the present refineries referred to have their set-up for loading tank cars now; while it might be necessary to make some slight additions it would appear that it would be more economical for the present shippers to include

the shipment of crude.

Q Well then that does not seem to take care of a case such as I have mentioned of the Anglo-Canadian, somebody would have to deliver to their tank cars at Calgary?

A Yes, someone would have to deliver to them but it would no doubt be possible for that company to make arrangements to have it shipped by anyone of these three companies.

Q Well that is why I was just raising the thought for discussion as to whether the best arrangements might not be that all these deliveries to tank cars should be done by the pipeline, possibly included in the rate or possibly an extra charge, and I am just raising the thought for consideration?

A Yes.

Q Either include in the rate that service as part of the delivery, the same as you deliver to a truck or to a refinery?

A Yes. Well there will be a set charge, there will be a charge for making that delivery and if the refineries would make it to other companies it would possibly be more economical for them to do it with their present set-up rather than set up an individual set-up to take care of a small volume.

Q THE CHAIRMAN: That is all right but the purpose of the Public Utilities Board is to not only provide the opportunity for people getting fair treatment but to insure that they do, and how are you going to insure that unless the utility must load at a price, you are leaving the one operation at the end, namely the deliveries, in the handling of hands of people who are in no ways under control, are you not, if you do it that way, you see for instance, we will take a class of people, and I would like your views about it, as Mr. Plotkins has pointed out to you and I share his views

that you are experienced and reasonable in all these things, now then, Mr. Coultis, you are proposing to deliver to three refineries and you think it not unreasonable that they should all be treated alike and whatever was thought just and fair with regard to one should be thought just and fair with regard to the others, and then you come to another class of people, people who are not one of those three refineries and who may not want to do business with either one of those three refineries because each and all of those three refineries may charge them too much for the service they render, what protection do they get?

A Assuming on that basis naturally if they cannot do business with any of the loading racks in existence regardless of who owns them, there only remains the one question of setting up an independent one.

Q Of requiring the Public Utility to stand ready to perform the service?

A I believe, sir, that if they load cars for their own refineries or associated companies the refinery who is performing the service will do it at some profit and I would naturally believe that any one of those three refineries would be glad of that little additional business.

Q Yes, and let us assume that it is right that they should do it at a fair price for the service, my difficulty is to see how that fair price is assured, let us assume that they should not be asked to do business at a loss?

A Yes.

Q And without a proper profit, so the three refineries are already, on your theory, they are in the rate, that these other people are helping pay but all these other people are naturally at the mercy of these three refineries, on your theory?

MAJOR LIPSETT: It might just be, Mr. Coultis on that set-up you see that if the assets of the Imperial so far as delivering to tank cars is concerned, if they are a public utility now, there might arise a situation where the imperial would be controlled and the other two refineries would be quite free to do what they liked, it might result in that; that the thought which was in my mind and which I wanted to hear discussed was that one operation for delivering to tank cars, and one set of gaugers and one set of equipment, ought presumably to be the more economical than having three or four.

A Except sir that it is always necessary for a refinery to maintain a loading rack for the finished product.

Q In any event?

A Yes.

Q Supposing that this situation should eventually arise, I do not know whether it will or not, that so far as anybody wanting delivery at Calgary into a tank car or tank truck, as well as refineries, it was all included in the one rate, would it then be an advantage to either of those other two refineries to take the oil out to their refinery and then have the cost of loading it there into tank cars?

A Well it would be natural to assume that the companies doing the loading would benefit by the cost of that loading or the price set for that service; in other words, regardless of who orders the loading to be done, that the company doing the loading would get that rate whatever it is, or that allowance per tank car for loading, or paid by the barrel.

Q Even if it were already included in the pipeline rate and you were willing to deliver it to the tank cars as well as

refineries, you have to carry it?

A Yes, providing, it would look more reasonable than to set up an entire set-up to load a small amount; assuming the refineries were shipping their own oil, to make some arrangements whereby one of the going concerns loading a large volume of different stocks of products could combine the loading of crude with that. They should be able to load cheaper than setting up an individual set-up just to load the remainder of the crude oil beyond the different refinery shipments.

Q That I take it is on the basis of this new capital expenditure which you have been discussing?

A Yes, this capital expenditure set-up here is to take care of that.

Q Take this other situation, Mr. Coultis, if you will, that the delivery equipment of the Imperial may form part of the public utility, so much of the equipment as is already in existence and supposing that deliveries to tank cars were paid for, of course; included in the rate so that any producer in Turner Valley or any purchaser in Turner Valley could deliver you oil there and ask you to have it delivered to tank cars in Calgary, under those circumstances would not one operation for that delivery to tank cars be more economical than three or four?

A Just a minute now, sir, I do not know whether I understand that clearly, you are making, do you mean by this direct delivery that the pipeline will discharge directly into the tank cars as it would into one of the refineries?

Q No, but there is equipment at the present time at the Imperial for loading into tank cars?

A Yes.

Q Now assuming for the moment that that equipment is part of the pipeline, of the public utility?

A Oh I didn't get that.

Q Under those circumstances would deliveries from that equipment to tank cars paid for as part of the pipeline rate, would that be the most efficient and economical, making it one operation, instead of a separate operation at the different refineries?

A No, I do not think there would be any difference, sir, because it would be necessary, each refinery will be assumed to have its own delivered into some storage tank in its yard.

Q If it is going to be delivered to a tank car would that be necessary at all, that is what I am trying to get at?

A Yes, it would be necessary to deliver it first into a tank and then pump that, or if it were possible, if you had a high enough hill where there was enough gravity, all right, but it would not be practical to deliver it direct from the end of the pipeline.

Q No, I was not thinking of that?

A No.

Q But you have, at least, the Imperial has facilities at the present time for loading into tank cars, crude oil?

A Yes.

Q Assuming that that is part of the pipeline utility and assuming that the deliveries into those tank cars were considered part of the service and paid for as part of the rate, would that not be the proper place and method for delivering into all tank cars?

A Well the same service can be performed at any of the three refineries in a like manner; I believe they are all or will be more or less on the same set-up, some will be smaller than others but they will all be equipped for loading tank cars.

Q Would that not duplicate or treble the expense of delivering to tank cars?

A No, I do not think so, sir, because the oil, assuming it is all put in tankage in each refinery by the pipeline, then it is a matter of any refinery of pumping that to the loading rack from that tank.

Q Well supposing that, included in the rate, there was a charge which covered delivery into tank cars?

A Yes.

Q Then take the Anglo-Canadian and they, in the rate, get delivery into their tank cars?

A Yes.

Q That presumably would be done by the pipeline utility?

A Yes.

Q Whether it is Imperial or Royalite?

A Yes.

Q Would any other, under those circumstances would any other refinery first of all take the oil out to their refinery and then they themselves go to the cost of loading into tankcars in addition?

A Well now in the case of any refineries wishing to ship oil there would be very little difference, if any, in any case, because it would be a pumping charge set-up, if I pump from the tank to the loading rack into the cars and the same operation will have to take place at any of the locations,

whether it is from the terminal tankage or not.

Q I am thinking of it from the point of view of it possibly being considered part of the utility service and charged for?

A Yes.

Q Then in that case you would get oil at Turner Valley to put into a tank car at Calgary?

A Yes.

Q For shipment to Regina or Brandon or anywhere else?

A Yes.

Q And you would be paid a rate including the putting of it into the tank car?

A Yes.

Q Now the B. A. or the Lion, under those circumstances, would have to pay that rate to you in any event to begin with?

A Yes.

Q So would they under those circumstnaces take the oil then out to their refinery and pay the cost of loading it themselves or would they let the pipeline perform the service of loading it into the tank cars?

A Well if the pipeline was given a rate which included loading to tank cars and that was a factor then I would assume that it was up to the pipeline to see that it was loaded, whether through its own facilites or others.

Q Yes, well, would that one service done by the pipeline company, would that not be more economical than to have similar loading into tank cars done by three or four refineries?

A It might not, sir, because there would be seasons each year when you might only load 1 up to 5 cars a day and that would

mean a set-up, it would mean operating the pumping house, possibly the steam plant and you would have to have men there to do this service where there would not be a full day's work for them.

Q Perhaps I was not making it very clear, Mr. Coultis, but what I was coming at is, supposing you have these five cars, would it not be cheaper to load the five at one central point than to load one each at five different refineries?

A Well it would appear that it would if the other refineries were not carrying on continuously loading operations, where pushing in a couple of extra cars would not mean much.

MR. FRAWLEY: I suppose, Commissioner Lipsett, in any event, the British American Oil Company would prefer to load their own cars for their Moose Jaw Refinery, at their Calgary racks, because they could do it, rather than pay the Imperial any amount because I presume that amount would include some return on their investment at any rate, so I presume the B. A. would always prefer to send their Moose Jaw requirements from their own refinery.

MAJOR LIPSETT: Then that would make another complication, you would have to have facilities say on this assumption for the Anglo-Canadian.

MR. FRAWLEY: That is true.

MAJOR LIPSETT: And if that is included in the rate then it would mean that everybody is contributing to this service.

MR. FRAWLEY: Yes, and the B. A. certainly would not want to load their own cars, if they had to, in their pipeline rate, pay for the Imperial Oil loading them.

MAJOR LIPSETT: That is what I was suggesting, I was only throwing it out as a thought, Mr. Coultis, so that everybody could think of it.

A Yes.

Q THE CHAIRMAN: Mr. Coultis, ~~you are performing~~ all of these operations now, gathering oil, transporting it and delivering it?

A Yes.

Q With the exception only of loading into trucks?

A Loading into trucks and tank cars, I am not handling that.

Q No, but I mean the Imperial Oil or the Royalite are pe forming, between them----

A Yes, I understand that.

Q The complete operation?

A Yes.

Q And as I understood your evidence before, the only facilities you lack of any sort or description to perform the complete service is in respect to tanks and loading racks?

A Yes.

Q And those you had dealt with here both from the standpoint of capital and operating costs?

A Yes.

Q In these Exhibits "240" and "241"?

A Yes.

Q All other facilities of which you speak are facilities which you are going to set up specially somewhere in respect of some pipeline terminal?

A Yes.

Q Distinct entirely from these facilities which are now used to

perform all of those operations, is that correct?

A Yes, as I understood it sir, you wished us to show the picture of an entirely independent set-up away from any other company with terminal tankage, car loading, and truck loading as practically independent.

Q Well it may be well to say now that there appears to be perhaps a misconception. Our report may indicate that any one of the seven or eight intricated companies or all of them are taking part in the performance of a service; that we think that any one of them should be selected to be a public utility; that each and all of them that are taking part in the service should be declared to be such and what we want to be sure of was that the capital involved was taken into account by us as well as the operating costs when we come to deal with it. You set up a new system. You might just as well give a figure of the cost, it occurs to me, at the moment of a new pipeline, of new terminal facilities, somewhere else in the Valley. You have not dealt with this on the basis of what you have now and when I say "you" I do not mean the Royalite any more than I mean the Imperial, I mean any company that is having to do with this, the performance of the service of a common carrier of oil, that does not seem to have been in contemplation at all in what you have furnished?

A Mr. Chairman, at the end of the pipeline we, the pipeline end of it or the Royalite, own nothing but the end of the pipeline. We rent tankage.

Q Yes, that is it you see, you have not divorced your mind from the company for which you work and that is quite proper, that you should not as an employee of that company but perhaps

Mr. Nolan is calling other witnesses who will deal with that.

MR. NOLAN: I propose, sir, with your permission to deal with this matter from the point of view of the Imperial Oil Company, to deal with this problem from the point of view of the Imperial Oil Company which owns and operates these facilities of which we are now speaking but for the moment what Mr. Coultis was asked to do and if he has done it improperly it is my fault and not Mr. Coultis', was to look at it from the point of view of the Royalite Oil Company owning nothing at the terminal except the end of the pipeline in the first instance and then we go on from there to decide and to explore what can be done having regard to the Imperial Oil's position and the fact that it is in ownership of certain assets which are presently being used for the delivery of this oil and that is coming up, sir. I do not want any misunderstanding about that.

THE CHAIRMAN: I see, I did not want to have this matter concluded without giving you the opportunity, I did not want, through a misconception or misunderstanding of what we had in mind, that you should be precluded from taking advantage of the opportunity of showing us what is involved in the capital expenditures and what is involved in operating costs and so on of what is now there plus anything else that is needed and this witness tells us that the only thing that is required is facilities in respect to loading.

MR. FRAWLEY: May I say this, because my friend will do this for me, I take it he has been rushed about this in view of the fact that we had to wait this morning for some of these statements, will my friend be good enough now to

outline for the information of the Commission and certainly to assist me, because I was of the opinion that this was what you were submitting in answer to the matters which the Commission called us together for some time in the early part of April, will you be good enough now to outline what you may propose to do, may I put it in the form of a question, do you propose to have the Imperial Oil submit a statement of the capital investment in, and the operating costs of, the loading facilities presently in use in the Imperial Oil Refinery in East Calgary and then generally would you mind outlining what evidence you propose to lead in this phase of the Inquiry?

MR. NOLAN: It is really not evidence that I propose to lead, sir; it is a statement that I propose to make on behalf of the Imperial Oil, having regard as I say, to the ownership of these facilities and to the questions which were asked of us when this Commission resumed its Hearing on the 8th or 9th day of April last. Now it has been shown in the evidence this morning that the British American Company have a direct line from the trunk pipeline to their refinery.

THE CHAIRMAN: Are you through with this witness?

MR. NOLAN: No, we are not, sir.

THE CHAIRMAN: Will you just sit down for the moment then, Mr. Coultis.

MR. NOLAN: But I may go on.

THE CHAIRMAN: Yes.

MR. NOLAN: And that through this direct line to their refinery the British American Oil Company will take not only their Calgary requirements but their Moose Jaw re-

qairements from their refinery there. I understand that they are, the British American is equipped to do their own loading and the shipping of their Moose Jaw requirements. The Imperial Oil, as we know, is in the same position and will take through their direct connection with the pipeline, their requirements for the Calgary and Regina Refinery and do their own loading and shipping of their requirements for the Regina Refinery. That much seems to be clear. Now the question arises as to the loading of these tanks cars---

THE CHAIRMAN: Mr. Plotkins says that he apparently is prepared to do the same and those are the three refineries we have been talking about.

MR. NOLAN: Yes, the three we have been talking about. Now the point arises as to the question of the disposing and handling of the oil required by other people in what we call "tank cars" and our estimate is that this will probably average about a 1,000 barrels per day, that it will not be taken evenly because of seasonable requirements and that the major portion of it will move in the harvest and sowing season and then will probably not exceed a volume of 4,000 barrels a day.

(Go to number6517)

S. G. Coultis.

Now, there are two ways this can be handled, by the Royalite or by the Imperial. So far as the Royalite is concerned, I have nothing to say about that at the present time. The evidence went in this morning of what it would cost in capital expenditure to create or to divorce, let us say, these terminal facilities from the Imperial Oil Refinery.

Now, turning to the question of the Imperial Oil, we know from the evidence, Sir, that the Imperial Oil has to-day the facilities necessary for handling this business in addition to their own requirements, and that such movement would represent, roughly, in our opinion, about one-fifth of the daily movement through their equipment. In other words, their own requirements are about four-fifths of what goes through. I am authorized by the Imperial Oil Company to say that they make the firm offer to the Royalite Company to perform for Royalite the loading and shipping services of this movement of outside oil at the rate of 2 cents per barrel. There is one thing has to be said about that. The Royalite in passing this charge on to its customer would be obliged to add something for the loss in the volume in the process of the loading. We will have some evidence adduced as to the probabilities of there being loss in the process of loading. This additional charge would be approximately one-half per cent, roughly, or an estimated depreciation of from one-half to three-quarters of a cent per barrel. There would also have to be rental paid for the requisite storage for this operation by the Royalite Company. In computing this 2 cent charge the Imperial takes into consideration the fact that the cost of the service and

the fixed charges run evenly throughout the year and that the loading charge or cost applies only when the cars are being loaded. For example, not in the Winter season. We have taken into consideration the fact in fixing and arriving at this figure. Now, the benefit of having this service done by the Imperial is that the cost of doing it is lowered by reason of the larger volume handled, which is the point that has been coming up constantly. It is all predicated upon one condition, this offer of Imperial to Royalite. We decline to perform this service if as a result our loading facilities should become in any sense a public utility. We make this offer as a private corporation willing to do and perform this service for that amount but not as a public utility. Now, these loading facilities, Sir, are primarily and principally for our own use and the service which we offer to the Royalite is merely evidence of an effort on our part to meet a situation which is here before this Commission in what we consider to be a practical and a very economic way. We do not feel this Commission desires, in view of what we are offering to do, to make the loading facilities of the Imperial Oil a public utility, any more than they would want to make the loading facilities of the British American Oil or of the Lion Oils a public utility, because these people, these companies, have erected and have used these facilities for their own private use. I do not think any good purpose will be served by making anybody a public utility because we think that the offer is fair and one that meets the situation and meets it properly. If that is not acceptable to the Commission

the only thing we can do is to turn again to the evidence that has been adduced to-day on behalf of the Royalite Oil Company as to what it would cost them if it is asked to perform that service. Another interesting point which came into discussion this morning was that it is evident from the figures that have been adduced on behalf of the Royalite Oil Company to-day that purchasers of crude would cease to buy from the Royalite and would purchase their crude either from the Imperial or from the B. A. or from the Lion. So that even if the Royalite did erect these terminal facilities which have been referred to to-day and it would be required to load the requirement other than those of the Imperial Oil and the British American, it is our opinion that the purchasers of the crude would avoid its use on account of the extra cost. In other words, such purchasers would much prefer to buy crude from the Imperial, the B. A. or the Lion, the Lion Oil in turn to do the purchasing direct from the Royalite and receive the oil purchased through their direct connection.

Turning for one moment to the question of tank trucks, what we say about that is this, that the amount of crude oil which would be taken away in tank trucks would probably not average more than 100 barrels a day, even if it reached that amount. Those facilities would necessarily have to stand idle throughout a great part of the year and would only be used to their full extent during the sowing and harvesting season. Now, as we have seen, this Imperial Oil Company

is already equipped for tank truck deliveries of what are known as "white products", and could, we believe, with small expense, take care of this additional item of the crude business. But again, any offer that we make is on the ground and on the terms that we are not subjected in our tank truck operations to public utility control for this small and unattractive service to Royalite, which would be required for these tank truck deliveries.

Now, then, Sir, by reason of the facilities which we already have, we are prepared to render this tank truck loading service for 7½ cents a barrel. Again I say, if that is not acceptable to the Commission, it might be necessary to turn again to the evidence that has been adduced on behalf of the Royalite this morning as to what the cost will be if it is necessary to create these new facilities. Very simply the point is this, we feel that we, having these facilities at the present time, and having erected them for our own use, and using them to a very large extent ourselves for our own requirements, are in a position to make a very attractive offer to the Royalite for this service, and we are prepared so far as tank cars are concerned to perform it for 2 cents a barrel, which, of course, in comparison with the figures that were adduced this morning, show it is very reasonable as compared with this. Again, so far as the tank trucks are concerned, we are prepared by reason of the facilities which we already have and the volume which is handled on account of the Imperial Oil, to agree to perform that service for 7½ cents a barrel. Provided always, as I said before, that we are left in the

[illegible]

is already [illegible] from a fly-wing of wood [illegible] "[illegible]" and could, I believe, [illegible] [illegible] additional item [illegible] [illegible] that we [illegible] [illegible] that we are [illegible] [illegible] to [illegible] ability [illegible] [illegible] motive [illegible] [illegible] to Royal [illegible] [illegible] for [illegible] [illegible] truck delivery.

[illegible] Now, then, [illegible], by reason of the [illegible] which [illegible], we are prepared to render [illegible] a [illegible] truck loading service for 75 cents a barrel. [illegible] copy of this [illegible] [illegible] transaction, it [illegible] necessary to turn [illegible] to the [illegible] [illegible] on behalf of the Royalite [illegible] [illegible] the [illegible] will be [illegible] it is necessary to [illegible] [illegible] facilities. Very already [illegible] [illegible], I feel that we, having these facilities [illegible] [illegible] and having [illegible] them for [illegible] [illegible] and make [illegible] a very large output [illegible] [illegible] requirements, are in a position to make [illegible] [illegible] to the Royalite for this service. [illegible] [illegible] tank [illegible] [illegible] a barrel. [illegible] [illegible] [illegible] figures that [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

position which we were in before this Commission began its sessions, as a private company. We make this offer as a private company, and it is not an offer which we will continue to make if there is any intention or desire on anybody's part to make the Imperial Oil in respect of its facilities in the East Calgary a public utility. We do not think it is practical. We do not think it is economic to do it. We do not think it can be done because of the practical difficulties of dividing up these facilities which exist there now as between, if you like, a public utility on the one hand and a private corporation on the other. We hope that there will be no necessity of imposing public utility control upon us in view of the offer which we are now making.

THE CHAIRMAN: Mr. Nolan, do you mind just elaborating for our benefit why you think the Imperial may decline to become a public utility at its own behest any more than Royalite, or any other company that is made a public utility?

MR. NOLAN: We do not think that the operation is such that it can be severed in such a way in the East Calgary yards as to make it practical that one portion of the operation should be a public utility and the other portion not a public utility.

THE CHAIRMAN: Then, had you divided up the operation of the common carrier amongst more of your integrated companies it would be impossible to make anyone a public utility because it was not performing the complete service. That is to say, if

North West or Dalhousie were doing the gathering and the Royalite the transporting and the Imperial the delivering would you think on that account the public which might, in someone's opinion, not be properly protected without this whole operation being made a public utility, could be denied on that account?

MR. NOLAN: No, I think if the North West Company was doing the gathering of this oil we would direct our attention to the entire situation that surrounded the North West Company and, perhaps, you would decide it was to be a public utility. I am saying that we are prepared to do these things if we are not made a public utility.

THE CHAIRMAN: Quite so. I understood you to say that and that is why I was questioning you now. I hope I am not interrupting you.

MR. NOLAN: Oh, no.

THE CHAIRMAN: I understood you to say your company, the Imperial, would decline to perform the service, and I am asking you to tell me on what ground they have the right to decline?

MR. NOLAN: What I say is this, that we are making this offer at these amounts. That is the offer made by us in our capacity as a private corporation. If there is to be a public utility, an effort made to make us a public utility-----

MR. FRAWLEY: Or if it has already been done.

THE CHAIRMAN: As the case may be.

MR. NOLAN: As the case may be. Then, of

course, there is, perhaps, a larger field we have to explore as to what the rate should be.

THE CHAIRMAN: It may be that there be some legal ground for saying that any recommendation of ours to the effect that the Imperial, that has to do with the delivering end, shall we say?

MR. NOLAN: Yes.

THE CHAIRMAN: Of this operation of a common carrier, there might be some reasonable ground for saying it cannot be made a public utility. If there is then we will be naturally interested to hear what it is, if you care to argue it here. At the moment we entertain the view that whether it be one company or two or six they should all be controlled by the Public Utilities Board so long as they are performing the services of a common carrier in any part. That is to say, that the division of the labour of common carriers between integrated companies should not preclude them from becoming public utilities, controlled by the public Utilities Board. We are anxious to hear all views, either for or against that. At the moment you will bear in mind that by an interim report we have, I thought, made it quite clear that we think the delivery should be controlled just as surely as gathering and transporting. If we have not made it quite clear we undoubtedly will before a great time. What we had in mind, Mr. Nolan, was that unless you are able to defeat that recommendation, if acted upon, in the courts of this country or otherwise, unless you are, was that it was proper to give you an opportunity of saying "Now, then, you have made the delivery end a

public utility, but having done that you should in fairness take into account what our capital involved in it is; what the operating costs in connection with it are", and in order that there should not be, in our opinions at least, anything done that was unfair we provided that opportunity. It is for you entirely to say "We offer you a brand new set-up for Royalite and we stop right there", or to call evidence along the lines that we have indicated we are very willing to hear.

MR. NOLAN: My hope was that in view of this offer which is being made it would not be necessary to go into the question of what the capital costs of the Imperial Oil facilities were or to consider them in any way in the light of a public utility.

THE CHAIRMAN: Quite, Mr. Nolan, but, after all, we are only being at some pains to be sure that you are not in the dark about this so far as our thoughts are concerned, you understand. We hear all you have said. You take your own risks is not giving any more evidence that we will find on, so far as our recommendations go. I mean we are not receiving offers, if you know what I mean. We are willing to consider as to whether your proposal is one that should be included in a recommendation. But you stop there at your peril. We have provided the opportunity of your showing the other.

MR. NOLAN: The other being the capital invested in these facilities.

THE CHAIRMAN: The usual thing within a smaller margin.

MR. NOLAN: That evidence has not been made available to me. I do not know whether it arose in the discussions which my friend had in Toronto or whether it did not. I can again communicate. We are not going to lose any time.

THE CHAIRMAN: Well, Mr. Nolan, I think it has been quite clear from the beginning, we did not offer you a month to make an offer to the Royalite in our presence, but rather to see what you could set up. This is very rough, it is true, but it is quite clear what we wanted to know about the terminal facilities was how much you needed, what capital cost was involved, what are the facilities required to properly deal with the terminals and what the expense would be in operating. Roughly put though it is true but that is what it was. It makes quite clear what we hoped to hear evidence about. It is for the Imperial to say that they do not choose to adduce that evidence if they want to, but as long as you understand as their counsel that we have provided the opportunity. We do not coax for evidence. Anything more of Mr. Coultis?

MR. PLOTKINS: Yes, I would like to make a few remarks to the Chair in answer to Mr. Nolan, if I may be permitted. There is an angle there that possibly the Commission has not considered, and I think at this time it is the proper time to show this angle, that influences the question of deliveries of crude to independents. I would like to know if it is admissible for me to do it at this time.

THE CHAIRMAN: You are speaking now to Mr. Nolan's offer put forward as a private company, are you?

MR. PLOTKINS: Yes.

THE CHAIRMAN: I see no objection. But I am just wondering - we will be very glad to hear you and hope to hear from other counsel, from the counsel here present - but I am just wondering if we could release Mr.Coultis, if no one has anything more to ask him, so that he will not sit through a protracted argument.

MR. FRAWLEY: No, and further than that, it was at my request Mr. Moore, who is a busy man, came here this afternoon and has been sitting here. I have not much to ask him but I would like to ask him and be done with him.

MR. PLOTKINS: Possibly I could answer Mr. Nolan at a later time.

THE CHAIRMAN: You will have that opportunity.

MR. PLOTKINS: Well, if I may be permitted I will continue my examination.

THE CHAIRMAN: I think it quite right to say to Mr. Moore he certainly will not be needed this afternoon. About how long would you expect to be, Mr. Plotkins, with this witness?

MR. PLOTKINS: Ten minutes.

THE CHAIRman: Have you any thing more, Mr. Frawley?

MR. FRAWLEY: No.

THE CHAIRMAN: Mr. Nolan?

MR. NOLAN: No.

THE CHAIRMAN: Mr. Harvie. Just so we can tell Mr. Moore when to come back, that is all.

MR. HARVIE: Quite so. I may say I have submitted these facts and figures to the representatives of my company and they are considering them. But as you know, I only got them this morning and they are quite extensive.

THE CHAIRMAN: I mean in the examination of this witness.

MR. HARVIE: If it would be possible to hear Mr. Coultis, and along the same lines Mr. Moore, quite possibly a lot of the questions I would ask Mr. Coultis, if his evidence stopped now, will be answered by Mr. Moore. So that I may make a more complete and simplified case if I heard them both before we were called upon to question either. It is all the one item. It happens to be two companies that are giving the information.

THE CHAIRMAN: What do you think about this suggestion, Mr. Nolan. How does it appeal to you? It is a little unusual.

MR. NOLAN: I do not mind. Mr. Coultis has been quite good about coming and I am sure he will come back again if Mr. Harvie has anything to ask him, if Mr. Plotkins is through.

MR. PLOTKINS: I have only two questions.

THE CHAIRMAN: We will have the two questions to-night then, Mr. Plotkins.

Q MR. PLOTKINS: The pipeline, as a common carrier, is now in receipt of 1% for gathering and handling?

A Yes.

Q In the past the experience has been that that 1% takes care

of the actual losses?

A In the season that it has operated under the 1%, which was the Fall and Winter. We have had no troubles of that kind and the temperatures, naturally, have been very low, so your evaporation is at its minimum. I cannot prophesy what it will be during the warm months.

Q During the Winter months?

A During the Summer months.

Q Is not that the time when the greatest movement takes place?

A Yes, Sir.

Q And when the tanks are all the time practically empty?

A They were empty a good deal of the time of the heavy movement last year. I do not know whether that will be so this year. Nevertheless, the same surface or area of oil was exposed in each tank regardless of whether the tank was full or empty.

Q But the percentage of loss on a large volume is considerably smaller than it is on a small volume, that is your experience?

A Not always.

Q Not always. Under what conditions could it be otherwise? I mean my experience is always that it is in relation to volume.

Q That is, your losses were smaller in the large volume?

Q Certainly?

A Depending on how rapidly you are moving it.

Q We are asking about the Summer. You are moving it very fast and your tanks were empty practically all the time?

S. G. Coultis.

A You are moving very live oil when you are moving it very fast.

Q You are always moving live oil?

A Yes.

Q Under present conditions?

A But when you are moving it very rapidly---- it contains a great deal of dissolved light ends and gas that makes your volatility losses higher.

Q That is another point that probably we might explore.

THE CHAIRMAN: You won't forget those two questions.

MR. PLOTKINS: Well, I will leave that for the present. If the pipeline company were loading tank cars that 1% loss would be ample to take care of the loss in loading?

A I do not know, Sir, I have not loaded tank cars.

Q You have not loaded tank cars?

A Not here.

Q Is not that a point to consider, Mr. Coultis?

A It may be a good point to go into but I am not prepared to go into it, Sir.

Q Well, the refiner loading his own tank cars, but having given the pipeline 1%, would have to stand that loss?

A Yes, there would be additional loss.

Q So he would be at a disadvantage with at least the Imperial Company. While it might be a separate entity it is certainly an integrated part of the Standard Oil. He would be at a disadvantage in connection with loading tank cars. That amounts to quite a bit in a year's time?

A I cannot answer that unless you give it.....

Q As an engineer and a man in charge of the operations in Turner Valley for a good many years I suppose you could answer that question?

A Would you mind stating the question, please?

Q If the Royalite had its own terminal or the Imperial had its facilities to perform the services for the loading of tank cars for independent or other purchasers, it could do so much more economically than the British American or the Lion Refinery?

A I do not know.

Q If you take into consideration the fact they already have been allowed 1% to take care of gathering and handling, which, presumably, could also include the loading charge?

A Assume our losses were a little more than 1%, how would that come out?

Q The Commission is going to protect you in that. If you show it to be more than 1% they will raise it to whatever will take care of your loss. Your past history is such there is no doubt that you could calculate sufficient to protect it. Would it be fair to say that the Royalite or its affiliated companies the Imperial Company, would be in a better position to load tank cars more economically than other refineries?

A I do not think so.

MR. FRAWLEY: What I want to ask Mr. Moore is only to prepare a statement. I do not think for a moment he has now the evidence I want to ask him. It is just a matter of a short time.

MR. NOLAN: I did not tell Mr. Moore what he was wanted for because I did not know.

.....

C. A. MOORE, recalled,

Q Mr. Moore, you are already under oath in this Inquiry. I think it is important for us to have some knowledge of what your deliveries were last year into tank cars and tank trucks. I suppose you could tell us easily what your deliveries into tank trucks were. They would be pretty low. But would it be a great task for you in the next day or two-----

A You would not want it in gallons?

Q Barrels?

A About 2,939,000, and you can guess the rest.

Q I want it divided up. I would like a little statement showing how much you sent to the I. O. at Regina, and the B. A. at Moose Jaw and to anybody else?

A You would make it difficult, wouldn't you?

Q Yes, if you can do that in the next twenty-four or forty-eight hours.

THE CHAIRMAN: Twenty-four. Mr. Moore is quite quick.

MR. FRAWLEY: Yes, and he has a large and efficient staff down there. I would like to know, and what we are concerned here with now is how much terminal storage incidental to delivery should be supplied by any of these people performing this function of common carriers. So would you be good enough to set out, separated as to consignees, the deliveries which you made into tank cars in 1938. If you have anything for 1939 that would not be any additional trouble to you, if you would let us have that too I would be glad. Well, I can ask you this question. I do not suppose for a moment you know. You would not be able to bring us the amount that you have

invested in loading facilities of one kind and another?

A I think that would take some time.

Q That would have to be obtained from Toronto, in any event?

A Yes.

Q THE CHAIRMAN: You have not been considering that during the last three weeks, Mr. Moore?

A Considering what we have invested?

Q Yes?

A Well, Sir----

Q I mean I am not attaching blame, but I am just saying the fact is you have given no thought to that?

A We have a very general idea of what our facilities are worth and what they will do.

Q You have a general idea?

A Yes.

Q I suppose you have an equally general idea of your operating cost?

A Reasonably so.

Q In connection with these same assets we are talking about?

A Yes.

Q MR. FRAWLEY: Well, Mr. Moore, have you got the kind of idea that would enable this Commission to arrive at a rate with the same care that we took in considering the capital investment and the operating charges of the Royalite Company's pipeline, to arrive at a rate?

A No, that would have to come from the East. I would think Mr. Cottle would have that.

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 5th, 1939

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WITNESSES:

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E X H I B I T S

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CLARENCE M. MOORE, having been recalled, examined by Mr. Frawley said:

WITNESS: Firstly, Mr. Frawley, I would like to make a correction on a figure I gave yesterday from memory.

Q Yes, a total figure you mean?

A An estimated total figure of the tank car loadings I said was 2,930,000 some odd barrels. I find that some of those deliveries did not all go by tank cars.

Q But now you have this morning----

A The corrected figure you have.

Q You are now submitting this morning a statement entitled "Shipments T.V. Crude Oil By Tank Cars, January 1st, to December 31st, 1938, Expressed in Barrels"?

A Yes.

MR. FRAWLEY: I would offer this as an Exhibit.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "242").

Q NOW just let us get the pertinent facts from that; now Mr. Moore, this shows that in the year 1938 you shipped to the Imperial Oil, Regina, 1,952,141 barrels of crude oil and the amount shipped each month is shown on the statement?

A Yes.

Q I wonder can you express that in tank cars even approximately, what would they run ordinarily?

A Oh about 230 barrels to a car would be, no, so far as the Regina shipments were concerned they were all made in cars and had a capacity of 240 barrels.

Q 240 barrels?

A Yes, approximately 240 barrels, they vary slightly.

Q So that we can get the number of cars if we divide by 240?

A Yes.

Q Then the Imperial Oil, Moose Jaw, Saskatchewan, you shipped just small amounts?

A Yes.

Q 45,646 barrels altogether?

A Yes.

Q 240 barrels there?

A Yes.

Q Then to the British American at Moose Jaw you shipped 668,217 barrels during the year?

A Yes.

Q For the Lion Oils, Limited, you shipped to Kamsack, Saskatchewan, 11,761 barrels and to Lion Oils at Wainwright, 572 barrels, I suppose for approximate purposes we can take 240 all the way through?

A No, if you look at your Wainwright shipment it was only 190 barrels and the other one was 382, that would be two medium cars in one month and one medium car the next month.

Q Then to the Anglo-Canadian Company at Brandon, operating under the name of the Central Distributors, Limited, Brandon, you shipped 74,111 barrels?

A Yes, the size of those cars would depend upon the equipment the consignee leased or owned or put in for the purposes of loading, Mr. Frawley.

Q All I want to get is, to get the number of cars that you shipped, however we will go along and then we will have to repeat this all over again after Mr. Morrison has got it finished, you shipped to the North Star Oils, Limited, Winnipeg, 108,190 barrels; you shipped to the Hi-Way Refineries, Limited, Moose Jaw, 5,790 barrels; then for Gas and Oil Products you made the following shipments, Sterling

Refineries, Limited, Yorkton, Saskatchewan, 5,805 barrels; to the Consumers Co-operative Refineries, Limited, Regina, Saskatchewan, 32,036 barrels; to the Eston Refining Company at Eston, Saskatchewan, 7,355 barrels; to the Gold Standard Oils, Limited, Wainwright, 1,742 barrels; to the Natural Sodium Products, Bishopric, Saskatchewan, 9,719 barrels. Now those you want to use a divisor of 200 and how many barrels?

A For those other shipments I would not commit myself, I do not know, that should be a large car, a medium car or a small car, depending on how they would come in. I am afraid I am a little too busy to be familiar with much of that.

Q 240 is a big car?

A Yes.

Q And the others?

A And 190 is the medium sized car and then there is the small car that ranged from 155 to 165 for a small car.

Q I see no use in pursuing this with Mr. Moore, Mr. Chairman, I think I will have to have Mr. Morrison make a calculation and a statement himself, perhaps after conferring with Mr. Moore he can prepare a statement showing the number of barrels which they loaded for these various shipments. However, it is a very useful statement, Mr. Moore, and thank you very much. Now you have the same thing for 1939, the first three months of 1939 and I would offer this as another Exhibit, Mr. Chairman.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "243").

Q MAJOR LIPSETT: This all went through the pipeline, I suppose, Mr. Moore?

A I would be inclined to think that is the only way that we can get it.

Q MR. FRAWLEY: Now looking at the statement for 1939, Mr. Moore, are you shipping for as many people this year as you did last year?

A No, there are nine shippers listed for 1939 and there are twelve distinct refinery operations or shipments made to various points in 1938, sir.

Q Now let us run over this list, you are shipping to Imperial Oil, Limited, at Regina?

A Yes.

Q And you will continue to make shipments there?

A Yes.

Q You have shipped something in February and March of this year for the British American to Moose Jaw?

A Yes.

Q Do you expect to continue making shipments there?

A I wouldn't say that, no.

Q Then to the Anglo-Canadian Company, the Central Distributors, Limited, at Brandon, you have made some shipments in February and March and do you expect from what you know to be continuing to make shipments for them?

A I would think so.

Q Then to the North Star Oils at Winnipeg you made some shipments in January and February and nothing in March but you have resumed your shipments to the North Star?

A No I have not.

Q And do you expect to make any further shipments to North Star then this year or is there some change there?

A I cannot answer that. If I receive an order and they forward some tank cars we would load them.

Q Yes, but I mean you just cannot help us as to whether or not that that is a prospective consignee?

A No.

Q For this year?

A No, I find that some of these consignees have the habit of forwarding and not ordering loading equipment and they have also a habit of discontinuing forwarding equipment without even honouring us with a notice that they have so done.

Q What I mean is this, the North Star has a refinery at Winnipeg, have they not?

A Yes.

Q And last year you made pretty consistent shipments to them throughout the year, didn't you?

A There was two months we didn't ship.

Q In February and March of 1938, but after that you made shipments to them in every month?

A Yes.

Q And you continued on, January and February, well now perhaps you do not know, but is there any significance in the fact you did not ship anything in March or April, did you ship anything for them in April?

A Have not.

Q You have not shipped anything for them since the end of February?

A No,

Q But you cannot tell us----

A We just did not receive any order for the month of March.

Q You do not know whether they are refining Turner Valley Crude there or shipping in some other crude?

A No.

Q Now the Hi-Way Refinery at Moose Jaw, you shipped not very much to them last year but you shipped some to them in March?

A Yes.

Q Can you give us any idea what the indications are so far as that refinery is concerned?

A The only thing I know, sir, is that there is the possibility that they will require a little crude during the summer season this year; that comes during a casual conversation; so far that conversation has been verified by shipments.

Q It has been?

A Yes, we shipped in March and we are continuing, we shipped in April.

Q So there may be loading facilities required to look after the Hi-Way Refinery at Moose Jaw?

A I would say so.

Q Then for the Gas and Oil Products, I notice that you had five people to whom you shipped on the order of Gas and Oil Products last year and only two so far this year, namely the Gold Standard at Wainwright and to Eston, Saskatchewan and only shipments in February to Wainwright and only in March to Eston, so far as this statement goes?

A Yes.

Q What are the indications there?

A Have not any.

Q Any what?

A Have no indications as to what we might do, sir. If an order came in and they had the equipment available we would simply take the business on as one of our daily routines.

Q Yes, I appreciate that, but can you give us an idea?

A I have not, I don't try to follow any other refineries but our own, sir.

MAJOR LIPSETT: The Consumers Co-operative at Regina had some?

MR. FRAWLEY: Yes, but that is not Gas and Oil Products.

MAJOR LIPSETT: Is it not?

WITNESS: Last year, but not this year.

Q MR. FRAWLEY: Their shipments, you are making shipments to the Co-op.,to the Consumers Co-operative direct this year?

A Yes.

Q On their own order?

A Yes.

Q Well now the Northern Petroleum Corporation at Kamsack, you did not make any shipment to them last year apparently but you made shipments to them on March of this year, can you tell us about that?

A Well that may be wrong here, Mr. Frawley; the Lion Oil has some shipments that went to Kamsack.

Q In 1938?

A Yes, and that may be to these people, I cannot say. Mr. Plotkins probably can straighten you out on that point.

Q Yes, now the Consumers Refinery, you have an arrangement with them this year, have you, to ship to them direct?

A As the orders come in we load their cars.

Q Now, Mr. Moore, you also have to file this morning some statements called Calgary Refinery, Tank Car Loading, and Calgary Refinery, Truck Loading Costs. Now the first statement I want to file is the statement showing the manner in which the 2 cents that Mr. Nolan referred to yesterday is made up?

A Correct.

MR. FRAWLEY: I will offer that as an exhibit.

CALGARY REFINERY TANK CAR LOADING STATEMENT IS NOW MARKED EXHIBIT "244".

Q Now this I may as well read into the record, Mr. Moore, the pertinent part of this exhibit. This statement means that at the refinery at Calgary you have the following investments in tank car loading, $8,600.00?

A Tank car loading facilities for crude oil.

Q Tank car loading facilities for crude oil? Correct. Investment in loading rack $8,600.00, in trackage $3,224.68, and in pump and lines $31,000.00, or a total investment of $42,824.68. Now fixed charges against that are for depreciation $3,986.85, and you have used in arriving at that depreciation, the depreciation rates of 7½% on the loading racks, 7½% on the trackage and 10% on the pumps and lines?

A Those rates were used in making that up at Toronto.

Q Then the second fixed charge you have is taxes, $214.12, or total fixed charges of $4,200.97. What does B. D. mean?

A Barrels per day.

Q Then for direct costs, based on 1938, which means those were the 1938 costs and which are projected on into 1939. There are salaries, wages, materials, expense,

fuel, distributed expense, steam, excepting fuel, electricity, pumping, burden, administration, or total direct costs of $37,846.41, calculated on a basis of loading 8000 barrels per day. Perhaps we have to ask you now, Mr. Moore, what your costs are. They are $37,846.41 for loading 8000 barrels per day, direct costs?

A Yes.

Q Would you mind telling me what the right hand column means, costs per barrel on basis of loading 5000 barrels per day. The fixed charges would be the same, $4,200.97, but the direct costs.....

A I think you will find that those were in direct proportion to the others.

Q 5 to 8?

A Yes.

Q If calculated on the basis of loading 5000 barrels per day, the direct costs would be $23,654.01?

A We would expect, sir, we would not find very much difference as long as we can put it integrally to other operations. If that was a separate entity that would be something else to consider.

Q At the moment, what you are saying is you can load these tank cars, or you can load 5000 barrels a day for $23,654.01, or $37,846.41 for loading 8000 barrels per day?

A Except for the fixed charges.

Q Except for the fixed charges and they are the same in each case?

A Yes.

Q Now then, that works out to 1.53 cents per barrel to load 5000 barrels?

A Either way.

Q To load either amount?

A It will work out the same in either way you work it, sir.

Q And then you add a margin for contingencies, return on investment and operation, .47 cents?

A .47 cents.

Q There is no indication as to how that is made up?

A You do not have to have any indication. We put a contractual offer in of 2 cents, of which .47 cents is to cover contingencies, profits, etc.

Q So that this offer consists of 1½ cents for cost of operating?

A 1.53 cents is the cost of operating the department for 1938. Contingencies, profits, and without insurance volume degradation or gravity degradation, is figured out at .47 cents.

Q So that if you do not mind me just taking a very slight decimal liberty, Mr. Moore, if you do not mind me saying again your cost would be 1½ cents and you are asking another ½ cent for margin for profit?

A Correct.

Q And that is the way the 2 cents is arrived at? And then the note on the bottom of the exhibit is "The above does not include losses in volume, gravity degradation or insurance."

A Yes. Insurance in that case, sir, covers insurance on the product while being loaded.

Q Then we have another exhibit which is a similar exhibit to show the truck loading costs for crude oil?

A Right, sir.

CALGARY REFINERY TRUCK LOADING COST STATEMENT IS NOW MARKED EXHIBIT "245".

Q This Exhibit indicates that you have an investment or will require it, - part of this by the way would mean some new installation?

A Yes.

Q You would require to have 3000 feet of three inch pipe at a cost of $3636.00; one tank, $250.00, and pumps and foundations $2,228.00, or a total investment of $6,114.00. Then as in the other exhibit you have fixed charges, depreciation, $514.25, using the 7½% depreciation rate, and you have taxes $50.00, or a total fixed charge of $564.25. Then direct costs, based on 1938 - oh by the way, the fixed charges totalled out to 1.55 cents on a basis of loading 100 barrels per day, and the direct costs based on 1938, which are not detailed, are 4.24 cents, making a total of 5.79 cents, to which you have added margin for contingencies, return on investments and operations 1.71 cents, making a grand total of 7.50 cents which you say is the offer that Mr. Nolan made yesterday as the truck loading charge. Now have you got the figures making up the 4.24 cents?

A That is our experience for loading white products into trucks in 1938, sir.

Q But I mean with some detail you have worked out the costs as far as the tank car loading is concerned, but you have not done that with regard to the truck loading?

A I have taken our figure that was built up similar to this one as far as white products go. And that is the figure that is used there,

Q That is the 4.24 cents?

A Yes.

Q It is obvious to say it would be a little more satisfactory if we had the breakdown, but there it is anyway, and that is how you arrive at the 7½ cents which your Company is prepared to charge the Royalite, or anyone else?

A I would say so.

Q I mean if I wanted to go down there and get crude oil in a tank truck, may we have it for the record, you would charge me the posted field price plus the pipe line charges, plus 7½ cents a barrel?

A After we get this equipment in. Right now you could not get it, Mr.Frawley.

Q If as and when you have the stuff there to do it?

A Yes.

Q And then, of course, the same thing follows with respect to the 2 cents shown on Exhibit "244", that is your offer to the Royalite, but it is your same offer to the Anglo-Canadian or the Gas & Oil Products?

A We have never differentiated between prices to any one, ourselves or any other customers that might come in.

Q As a matter of fact you were only charging 2 cents at one time to the B.A., oil company for loading?

A I do not think we had anything to do with that here.

Q You mean in Calgary?

A In Calgary.

Q My information was received from Mr. Cottle that very definitely that is the fact, there was a considerable period during which the B.A., Oil Company was charged 2 cents and then it was increased to 5 cents. But so we will be clear about it you are now offering to do for

2 cents what you charged 5 cents for last year?

A Oh no. There are still one or two points you have not got in there.

Q What are these points?

A For instance you loaded with your gravity in the car.

Q You loaded with, what do you mean?

A We loaded and charged the gravity received in the tank car. I am not taking that responsibility in this offer.

Q Let us be clear then. Let us be awfully clear?

A That offer is very clear.

Q Well, let us go back then. I presume what you are suggesting is - well I will take what Mr. Nolan said yesterday on Page 6517, so the Commission will know precisely and certainly what I am talking about. "I am authorized," Mr. Nolan said "by the Imperial Oil Company to say that they make the firm offer to the Royalite Company to perform for Royalite the loading and shipping services of this movement of outside oil at the rate of 2 cents per barrel. There is one thing has to be said about that. The Royalite in passing this charge on to its customer would be obliged to add something for the loss in the volume in the process of the loading. We will have some evidence adduced as to the probabilities of there being loss in the process of loading. This additional charge would be approximately ½%, roughly, or an estimated depreciation of from one-half to three-quarters of a cent per barrel." That is what you have been talking about a moment ago is it?

A I am talking about what is in my statment there, Mr.Frawley, of gravity degradation.

Q "The above does not include losses in volume, gravity degrad-

ation or insurance." Well does it mean then that if I had some tank cars to load there today, or as soon as this thing becomes effective, if it ever does, would you charge me 2 cents per barrel plus something else, based upon this note?

A That is all I am charging Royalite.

Q THE CHAIRMAN: What do you mean, Mr. Moore? What do you mean that is all you are charging Royalite? I do not understand that?

A I do a service, Mr. McGillivray, for the Royalite, and charge them 2 cents per barrel.

Q Yes. What Mr. Frawley wants to know is, is there any other charge as far as you are concerned?

A Not as far as I would be concerned. I am taking it from terminal storage and delivering it to the tank car. If there was degradation of gravity in this loading, which happens, then there is a difference in the price of the oil, sir.

Q MR. FRAWLEY: So the person dealing with the Royalite would have to adjust that with Royalite?

A I would say that. We have done this in the past without any adjustment.

Q MR. COMMISSIONER LIPSETT: What tank storage are you suggesting to take it from, Mr. Moore?

A In this case it would be from the Royalite terminal storage, sir.

Q Either from the three tanks at present in existence?

A The three tanks, or it might come down to two, or three different tanks.

Q Whatever they are, is not that oil, measured into those tanks, is not that the Imperial? What further loss would

the Royalite take on that oil or could they take?

A If it came in, sir, on account of some other company it could not be Imperial's oil.

Q MR. FRAWLEY: Let me understand, Mr. Moore. If I am the Eston Refining Company, or any one of those Saskatchewan refineries, and I sent a tank car to you and I want to buy oil, just buy oil. I want to buy a tank car of oil. I am not dealing with Royalite at all. I pay you $1.20 plus 15 cents pipeage.....

A When you paid the $1.20 what did you buy?

Q Some gravity oil, 43 to 43.9?

A We will presume the tank had just exactly your gravity oil.

Q Yes, just that 43 gravity?

A Unfortunately when it was loaded it might show 42.8.

Q After it got into the car?

A Yes.

Q Thatis when you test it you see it is 42.8?

A Yes. You quite agree with me that is 42.8. Now I have been very charitable, I have loaded a car for you for 2 cents we will say. You come back and tell me that I owe you 2 cents a barrel for degradation of gravity.

Q I have only got 42.8?

A But it was 43.1 in the tank.

Q Then the question is at what moment does the sale take place. Sure. You say the sale should take place in the tank car. Why don't you charge me for what you put into the tank car?

A I made this offer to the Royalite, or Imperial has, sir, as a straight carrying charge. That is we have to perform a service.

Q Yes, I know, but do not let us worry about the Royalite. As far as I am concerned, subject to what my friend has to say, but for the purposes of this quesioning , and so you and I will understand each other, the Imperial Oil Company's loading facilities are as much a public utility now as the Royalite Oil Company's pipe line is. I say that I am the Eston Refining Company and I come to buy a tank car of oil, and I want to pay your posted field price. I have in my hand that posted field price and I am willing to pay you for what I get. If I do not get in my tank car any more than 42, that is all I want to pay for and that is all I am prepared to pay for. So I ask you to load this car for me, you load the crude in and you measure it with your gauge when it is in the tank car and you find it is 42. Then we look at the schedule and we look up what I owe you?

A But I had paid for 43 gravity oil.

Q You had paid for 43 gravity oil?

A Yes, the common gravity coming into this tank.

Q I do not know what you paid for. You have some oil.

A We both admit that the oil in the tank is 43 gravity. We are quite agreed on that. It is 43.1.

Q You have a new system in the last ten days or so of paying for that oil haven't you, or you are going to adopt some new system to protect yourselves against these things?

A Yes.

Q Perhaps that is not working yet?

A Not to my knowledge.

Q So we will keep to the old system. You are buying oil from the Royalite Oil Company based upon the gravity at which it enters the gathering system down in Turner Valley?

A Yes sir.

Q You say there is a certain amount of degradation going on all the time is there?

A Yes sir.

Q And when I come up from Saskatchewan and want to buy a barrel of oil I have to take refinery run?

A That is correct.

Q And when I take that it goes into my tank car and it is 42?

A We will say it is 42.8 and it was 43.1.

Q I do not know anything about that at all. All I know is I am buying 42.8?

A You are well acquainted on that point. We would be compelled to pay 2 cents just to cover the degradation.

Q Let us not trouble about that because we do not want to confuse any service charge with that. That is a buying proposition. You say you have to make an adjustment there to protect yourself for loss in degradation? That seems we can deal with that separately from the services can't we?

A That is just the way we put it in there.

Q It really is a separate matter entirely? Now if something happen on which you must not stand a loss, or you make an adjustment, we will assume I am quite satisfied with that. I pay you 2 cents. What else do I pay you now, anything else?

A If you are buying my oil from the Imperial Oil Company you will pay the price of the oil plus pipeage charges.

Q So I will just pay the price of the oil?

A At some time, sir. That is not in effect.

Q No?

A You quite understand that?

Q Oh yes. I do not want to rush down there and ask for anything this afternoon. But I want to be sure what all this means. I paid 2 cents to get it into my tank car. Do I pay anything else?

A You would pay that to the Royalite.

Q No, I am not dealing with the Royalite at all, at the moment. I am asking you. I am going to the Imperial Oil Company in East Calgary?

A If you are going to the Imperial Oil Company, then I can ahswer your question.

Q Yes?

A If you are going to the Imperial Oil Company topday for a tank car of oil, you will pay the posted field price plus the carrying charge, plus the 5 cents loading charge.

Q Plus the pipeage and the posted field price?

A Yes, plus 5 cents loading charge.

Q I see, but if and when this goes into effect, in other words are you making this offer to anybody but the Royalite?

A I am making this offer to the Royalite.

Q Let us understand it.

A That is the only point I wanted to clear up.

Q Five minutes ago, unless I quite misunderstood you, you told me this offer was for anybody? You made no distinction. But there is a definite distinction. You are not offering to do this service for the Estan Refining Company?

A We will do it for the Royalite.

Q I understand that.

Q THE CHAIRMAN: And no one else?

A The Royalite Company being in charge of the terminal tankage, sir.

Q MR. FRAWLEY: And you being in charge of these loading facilities. However, let us understand. I thought you said, and I was very happy when I saw this this morning, I thought we had made a lot of progress, but I doubt now if we have made any progress at all, - are you offering to do this for the Eston Refining Company?

A I am offering to do it for the Royalite. We will ship it at the direction of the Royalite to anybody.

Q MR. NOLAN: I would like, Mr. Moore, to say something, if I may, Mr. Chairman, about losses in volume. I do not think that has been elaborated?

A We have our experience of 12 months, those in 1938, in which a large volume of oil was shipped by tank cars, sheets on which have been submitted to this Commission. We show actual volumetric losses in loading in this case. Now you have to take my evidence. I haven't the figures here. But it is .4848%.

Q That is just under one-half of 1%?

A Just under one-half of 1%.

Q And that is tank car you are talking about?

A Tank car.

Q That is oil that is lost, that has gone?

Q MR. FRAWLEY: Crude oil?

A It is crude oil. It is the differance between your loading tank and your volumetric charges on your tank cars.

Q MR. NOLAN: .4848?

A Both adjusted for temperature.

Q What have you to say in respect of loading tank trucks?

A On crude oil, sir, I can only give you estimates.

Q Why cannot you give me a figure?

A Because we have not loaded tank trucks with crude oil, except for a very short time, at which time it was impossible to make any estimate of inter-connecting lines as to what the loss what in that short time of loading tank trucks with crude oil.

Q Based on your experience i the business, can you express an opinion, form an estimate?

A I would say the loss in loading tank trucks would be heavier than it would be in loading tank cars. You would want to transfer to a smaller tank for accurate gauging, and then from that small tank to your tank truck and the loss would run in the neighbourhood of .9 to 1% in my opinion.

Q Not based on actual experience?

A Not based on actual experience of handling crude oil.

Q MR. FRAWLEY: Just let me go through something with you with regard to the truck loading cost. Are you offering to do this for say Mr. Munro, who has a refinery here, and who told us he desires to take crude oil away in tank trucks. Are you offering to do that for him for 7½ cents?

A I would say I would offer to do it for him, or for the Royalite Company from their terminal storage for any orders they might issue.

Q As far as you are concerned it has all to do with the Royalite?

A That is the set-up as we have presented it.

Q This is all you have presented?

A Yes.

Q If Mr. Munro came down he would first of all have to go

to the Royalite and then with the order from the Royalite he might present himself to your truck loading facilities, when they are built, and then the bill would go for the 7½ cents, not to Mr. Munro, but to the Royalite?

A Yes. In other words, I would say that the Royalite was the shipper.

Q Yes, the Royalite was the shipper. Perhaps almost the purchaser as far as you are concerned. You would send your bill for 7½ cents to the Royalite. Now let me understand, your bill would only be for 7½ cents, but if as between the Royalite and Munro there were any further adjustments that would be between them?

A I would say so.

Q If they wanted to charge him any more than 7½ cents, it would be their charge and not yours?

A Yes.

Q I understand you are very definitely taking the position here you do not recognize Mr. Munro as being a person entitled to go into your yard to buy crude oil from you at the posted field price, plus the pipe line charge, plus 7½ cents?

A In tank trucks, no sir.

Q I mean in tank trucks?

A No sir.

Q You do not recognize, if Mr. Munro came along with a tank car you do not recognize him?

A Under that set-up of figures, if Mr. Munro came here to-day and wanted a tank car of crude oil, his price would be the field price plus the pipe line charges, and plus the 5 cents a barrel loading charge,

Q Then this is the situation as I would look at it, so far

as the general public is concerned, there has been no offer made at all by the Imperial Oil Company to make these facilities available for delivery for to either tank cars or tank trucks, except at the existing rate of 5 cents?

A That is the one that is in vogue at the present time.

Q Anyway those are the costs for whatever the Commission may want to make of them themselves?

A Surely.

Q MR. COMMISSIONER LIPSETT: Do I correctly understand your position, as far as you can make the arrangement these facilities are available only to the one customer, the Royalite, and that they are refused definitely to every other customer?

A With the prices being passed through the Royalite, they are available to anybody. The Royalite is the Pipe Line Company and it is their terminal storage we are talking about. They are making the delivery. We are the contractor that is making the delivery for the Royalite.

Q You perhaps have not seen the interim report and the legislation that was passed on it, Mr. Moore, have you?

A I do not know that I am very familiar with the legislation. I have seen the interim report, sir.

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THE CHAIRMAN: I think it is fair to say that Mr. Moore, I do not suppose you are as yet speaking for your company in saying that you will defy the Government you are merely speaking in respect of your offer?

A Yes, and this is the offer which has been submitted Mr. Chairman.

Q Quite so, and I thought in fairness to you----

A I do not want the Commission or anyone here to think that we are going to break the law of the land exactly.

Q No, I just thought perhaps it would be fairer for you on the record to have that cleared up?

A Thank you very much, sir.

MR. FRAWLEY: That is all I have. You have something to ask, Mr. Plotkins?

TO MR. PLOTKINS:

Q Yes, Mr. Moore in connection with this 2 cent charge for loading tank cars, are we to understand that the reason you make this offer exclusively to Royalite is because of the fact that you will be drawing out of their storage and they will be standing any degradation or loss?

A I think you should ask that for the Royalite, I have not given that matter any thought.

Q You told us you had made a reservation?

A No, I simply said that price did not include that, sir.

Q ..ell you, in charge of the refinery and in charge of the Royalite's tanks at the refinery and with the knowledge of the losses you have shown us here, of roughly 1/2 of 1% I am asking you a fair question as superintendent of the refinery, is it because the 1/2 of 1% is being taken care of by the Royalite that you are making the offer of 2 cents only to the Royalite?

A I do not know where you get the idea that the 1/2 of 1% is being borne by the Royalite.

Q Only from your own words and your own statements telling us that you have taken this oil from the terminal storage and naturally that you have t it out of the terminal storage, it may be possible that in your inter-accounting, that the Royalite would then stand that loss and I am asking you?

A I did not say that the Royalite did stand the loss, sir.

Q I didn't say that you did but I am asking you if they do, and if that is the reason?

A They have not stood that loss to date.

Q They have not stood that loss?

A No.

Q You then tell us now that once the oil comes into the tanks in East Calgary Refinery that the Imperial Oil, you, the Refinery, stands all losses, is that correct?

A At the present time, sir, we have stood this loading loss up to the present time.

Q So that in the 5 cents you are now charging you include the loss in handling and the degradation in gravity?

A Yes.

Q And that is part of the cost of loading, to you?

A That is the way it has been operated up until now.

Q Now this degradation, how does the schedule run at the present time, the gravities change from, we will 20.9 or from 39.9 to 40.9 before there is a change in price, is that correct?

A I cannot understand that, I do not quite understand you.

Q Well there is the 2 cents increase or decrease according to the gravity?

A Yes.

Q A point?

A Yes, I quite get that.

Q So that there is an average between the two extremes, in other words you may buy 39.7 and you may buy 39.2 and you may buy 39.8 at the same price?

A Right.

Q Correct?

A Yes.

Q So that we have an average there and is it not a fact that on the other hand when you sell you also have an average and you benefit so that one offsets the other?

A So far the books do not bear out your assertion.

Q The Books?

A No, the records.

Q Is not that schedule calculated for that particular purpose so as to protect the purchaser?

A I would not think so.

Q You would not think so?

A No.

Q Well how does the purchaser protect himself then, it is not customary in the oil business for a purchaser not to protect himself?

A I am not in the crude purchasing business.

Q You are not in a position to tell us?

A And I am not in a position to answer that question.

Q Is there any other reason or might there be any other reason in the refining that would cause degradation to be reflected in your books which might not be in fact due to the crude shipments?

A Not so far as crude receipts are concerned I would say.

Q Not so far as crude receipts?

A No.

Q What basis did your accountants use in arriving at the .44 and some more fractions as the loss in loading tank cars?

A That was the difference between the out-turn of the tank car and the available products in the tank cars.

Q Now earlier in this inquiry you, I believe, gave us to understand that you pulled from almost any crude tank in your refinery when it comes to loading tank cars or even tank trucks?

A I told you that I pull from any one of four tanks.

Q The Royalite only has three?

A Right.

Q So that if you were to take crude to charge your still or for any other purpose and the records were not kept accurately there would be a possibility of this figure of .44 would not be the actual one?

A And I didn't tell you we took crude from the same tanks that we were loading tank cars now, either now or in the past, when I have been on the stand.

Q You did tell us a little while ago you were pulling from four tanks and have you more than four tanks?

A No, but I did not tell you I was pulling from four tanks simultaneously, Mr. Plotkins, or for two distinct different jobs, from one tank on two jobs at the same time.

Q Well we will leave that alone. However, how old is the refinery in Calgary, when was it first built?

A In 1923.

Q From time to time your crude lines have been changed as to position?

A Yes.

Q You now have a maze of crude lines running through your refinery?

A I would not say a maze, we have several people that are intelligent enough to follow them without a map.

Q What?

A I have several people down there intelligent enough to follow them without a map to get around.

Q I am not reflecting or casting any reflection on you, it is customary in the average refinery of the size you manage----

A We have to have quite a number of lines and various changes to facilitate operations.

Q Yes, from time to time?

A Yes.

Q So that over a period of years you accumulate a lot of lines, dead ends, is that correct?

A I would not say that we have very many dead ends.

Q You have some?

A I am not quite so sure of that either.

Q Well some, just a short time ago, were not your lines all overhauled and straightened out?

A That is a continuous process we do from day to day and month to month.

Q So it is possible and in fact usual in refinery operations to lose products of one type and another, is that correct?

A That might be possible.

Q Yes, is it not?

A I would not say there would be any particular advantage in losing crude oil into gasoline or even in a fuel oil, it would all have to be rehabilitated before it could be sold.

Q But in your refinery you have a gathering system that gathers all the tail ends of all the products?

A If you are referring to the sewer system, we are well sewered, yes.

Q So if there is any spillage or any mixture take place, it is recovered in the sewer?

A It is recovered in the separator.

Q It is customary, or I will say it is the rule, in a year's time there are a few instances?

A Yes, I would be quite pleased some year to go through the year without having some of those.

Q Just as much in the handling of crude as in other products?

A Yes, quite as much.

Q The figure you submit of .44 is only a estimate to the best of the ability of the accountants?

A No, it is a figure between the gauges of the tanks used in loading crude oil to tank cars and the amount of crude oil that was charged to the customers in the books, in the receipts.

Q And it takes into account all the spillages and all the mistakes in opening a wrong valve and so forth?

A Well they have to be taken into account.

Q They have been taken into account in this figure, or have you just taken the direct subtraction and ignored the very many possibilities of the crude finding its way into other tanks or into the sewer?

A We have been very fortunate.

Q So far as----

A We have been very fortunate so far as the sewer is concerned and we are very careful that there is not anything to create breaks on the line that we use for this purpose.

Q On the line?

A On the line we used for that purpose.

Q Did you say that Toronto prepared this cost estimate in loading tank cars and tank trucks from your refinery?

A This?

Q This Exhibit "242", and Exhibit "243"?

A Is that "a" and "b", Mr. Morrison?

MR. FRAWLEY: "244".

Q MR. PLOTKINS: What you presented today?

A Yes, because we have not got the figures to prepare all that, we submitted certainly part of the figures.

Q Do you know if the same accountant in Toronto prepared this Exhibit "241"---

A What is that one?

Q This one of pipeline division utility plant necessary to service terminal facilities?

A I would not think that they prepared it, sir.

Q I beg your pardon?

A I would not think so, I will have to plead ignorance of that, I have not even seen it.

Q So you are not in a position to tell us?

A Not at all.

Q Have you any explanations to offer why last year the independent, that is the Lion Refining and the Gas and Oil Products, shipped to a number of refineries, small refineries, in Saskatchewan, and this year the Imperial are shipping direct?

A Not a bit, I really would not know anything about it.

Q You have no information?

A I am a very poor salesman, Mr. Plotkins, I have not even gone out to solicit any crude business.

Q In the conversations you have had with your customers?

A Well now, you know that if I had those I would not tell you about those.

Q You are on oath Mr. Moore and you are supposed to tell the truth?

THE CHAIRMAN: He says he doesn't know, Mr. Plotkins.

MR. PLOTKINS: That is all, thank you.

TO MR. FRAWLEY:

Q Mr. Moore, I will have to ask you something more about those 2 cents?

A Will you let me see that, so we will know what we are talking about.

Q At the bottom there, you say it does not include?

A Loss.

Q Loss in volume, gravity, degradation and insurance, now we have discussed gravity, degradation?

A And Volume.

Q We have discussed both of those because my suggestion is, so you will be clear, whether you agree with it or not, it is my suggestion to you that the question of gravity, degradation and loss in volume can be a purchase adjustment, not a service adjustment, you see at least what is in my mind, you can simply adjust with the purchaser when he gets it in his tank car and if you have suffered some loss because of the fact you have bought a specific gravity and sold him a certain lower gravity, he must pay you something that can be worked out as a purchase adjustment, couldn't it?

A I would think so.

Q For the moment assuming it can be done that way and therefore

not be any concern of ours in endeavouring to ascertain what the cost of the service is, then the next thing is that only leaves the question of insurance?

A Then in that case the insurance would be the insurance in transit, from the tank to the tank car was the only thing contemplated.

Q Is there anything to be added now to your 2 cents for insurance?

A I would say, sir, that if there was the possibility of wear and tear and breakage, where loss and breakage can be involved, there might have to be something added there.

Q I would like to know you see, whether or not we can take the 2 cents, whether I can take it for the purposes of my submission to the Commission as covering all of your service costs in getting a barrel from your tank into the purchaser's tank cars and I am setting aside this question of gravity, degradation and loss in volume to be dealt with differently?

A I would say then that if the loss in volume was taken care of your 2 cents----

Q Would be it?

A Yes.

Q And under no worry about insurance?

A I would think so.

Q Now that gives us some satisfactory statement and now how about the 7½ cents a barrel?

A Well you have the same point on there I think.

Q The difference does not include loss in volume, gravity, degradation or insurance?

A No.

Q I wanted to be clear, I am of course contemplating a stranger coming into your yard, not dealing with the

Royalite at all, he is coming to you to do business with you as a public utility so far as these loading assets are concerned and he asks to buy a barrel or 100 barrels of crude oil?

A Yes.

Q Is your cost 7½ cents and allowing also the question of loss in volume and gravity, degradation to be taken care of separately, as I call a purchase adjustment?

A The same thing applies, yes.

Q Insurance has not then to be added?

A No.

Q You see Mr. Moore, one of the things we have to know and the reason I was trying to be at some pains with respect to the number of cars you moved last year, shipped last year, as shown by Exhibit "242" and implemented by Exhibit "243" for 1939, you see one of the things the Commission asked us to find out was the amount of storage, how many thousand barrels of storage are reasonably required to supply adequate delivery facilities, you are perhaps in a better position to answer this than Mr. Coultis whom we asked yesterday, now just having in mind this kind of thing, delivery into tank cars and tank trucks, I would like to know if you can tell me, and based on your 1938 experience coupled with what you know of 1939-----

A I am afraid I will have to go a little further than that, Mr. Frawley, I will have to discuss my own personal opinion of pipeline and that might----

Q I would be very glad to have you do that, I do not know at the moment what you mean?

A I would say, sir, that looking at the pipeline in the position that it is in with its peaks and low periods, that that pipeline would have no chance of being efficient

and properly doing its work if the storage was cut below 120,000 barrels at least; now to make that quite clear as to why I based that statement, anything can cut off a certain amount of these shipments, through floods or wrecks or fires, the possibility of something happening in Calgary at the plant that are using it also have some risk attached and when you recall that last summer your peaks went up to around 29,000 barrels, then sir, that pipeline would not have very many days to work on if the storage was curtailed shortly and lost barrelage cannot be recovered maybe in the month that it should be recovered in; the over-all peak, sir, on the prairie last year was in August and September peak loads, if that happened to be the time you got into trouble----

Q Yes, now you are having in mind of course and I am glad to have your views about this, you are having in mind only the operation of this storage to provide delivery facilities to tank cars and tank trucks?

A Yes, I think that the pipeline should have at least three tanks in its terminal services for the best operation and it will have to be a very smooth operation to get down to just two tanks in its terminal service.

Q So that the Commission will know what that charge of 120,000 will provide, using the average sized tank car, it means you have 600 tank cars of crude in that storage, you have not got those in barrels, it looks as though you shipped just roughly about 8,000 barrels to Regina for the I.O. at Regina and 190 cars to the B. A., not of your own?

A 8,000 cars instead of barrels.

Q 8,000 cars I meant.

A 8,000 cars.

Q Of course I do not know----

A You know, sir, I would not be so interested in how many cars I shipped to a customer as I would as to how many cars I would have to ship on peak days, Mr. Frawley, and this is a country of peaks in several lines of businesses, not only the oil business.

Q I do not want to be any party to not letting there be enough storage there but I want to be clear that we only had in mind that one storage?

A Quite.

Q Just storage to provide----

A We have loaded 60 cars of crude in a day down there, well you see that, you put that on 240 and you will find you have handled a little bit of oil.

Q That is what I am getting at, you say on a heavy day you would load 60 cars?

A We have loaded 60 to 65 cars.

Q And you have 600, that is 10% of your storage?

A Yes.

Q Now doesn't that throw some light on it, let us pursue that, you say 60 cars out of there is a good heavy movement?

A Yes.

Q And you have only touched 10% of your storage?

A Of course you don't figure the tanks to the top, neither do you empty it.

Q I do not know?

A You would not like to take oil on the last two feet of a tank, Mr. Frawley, down near the bottom and I would not like to give it to you.

Q On your heaviest day you have only dipped into your tank 10% and then let us see, you have three days, three peak days,

you have only dipped in 30%, you are a long way from the slugs at the bottom of your tank on that day, 600 cars and your big day of 60 cars, that is the information I was trying to dig out of this Exhibit. I think that is a thing that is important, however that is your submission, Mr. Moore, that may need storage capable of holding 600 cars, although on the heaviest day you would only move 60 cars, are you including Imperial's movement?

A No, no, oh, in the car movement, certainly, your sheet shows the Imperial's movement.

Q This 120,000 barrels of storage?

A You take the 200,000 barrels, what figure did you use, Mr. Morrison, in making up 600 cars.

MR. MORRISON: 120,200 barrels.

A Well I do not know, one of us is wrong.

Q MR. FRAWLEY: 200,000 barrels, you see we took the average car?

A That would be about 500, would it not at 240.

Q Oh not at 240, the average car we took, not the peak car?

A Oh, the average car.

Q Yes?

A I see. Well I think I would take off about the bottom 5 feet of each of these tanks, Mr. Morrison, and about the top 2 or 3 feet, that is a pretty safe working average, I would not want to run my oil too low in the tanks and neither would I like to depend----

Q How about the 120 that you were recommending, the 120,000 barrels of storage, 600 cars or whatever the proper figure would be?

A Yes.

Q The 120,000 barrels of storage you are mentioning is necessary for providing facilities, does that include storage for

the cars you would ship to your refinery at Regina?

A No, I would say we would take care of that.

Q Then if that is so, then the 60 cars that you move then in one day, does that include the shipments to Regina to your own plant?

A In the figures we made for last year-----

Q Would we not have to take those off?

A Well you can take them off, you are as good a guesser as I am, Mr. Frawley, on this 1939 shipping, it is quite a different set-up to what was 1938.

Q Let us eliminate the shipments to Regina to your own company or any shipments to your own company and what would be the heavy day, that is what the Commission is interested in, what would be the heavy day?

THE CHAIRMAN: Why do you take Imperial off, Mr. Frawley.

MR. FRAWLEY: Because in my submission the Imperial is operating its own business-----

THE CHAIRMAN: But are you treating them differently from other refineries in Saskatchewan?

MR. FRAWLEY: What I am trying to get at, sir, is how much storage they should have to provide.

THE CHAIRMAN: They should not be treated any better but they should not be treated any worse.

MR. FRAWLEY: I am not concerned with what storage they need, either storage or maybe facilities that they need for their own shipments to Regina. I am anxious to know whether the 120,000 is too much or too little?

A MR. FRAWLEY; would you suggest that we go ahead and put in some more loading facilities to handle the Regina shipments?

Q No, you have them?

A You said you were not concerned with the present equipment for loading to Regina and I want to be clear on that.

Q I expect you will use, I will put it that way, I expect you will use your public utilities to carry on your own business, it is perfectly natural that you should, well now just let us clear it up and I will not pursue it, to labour it, I would like you to refer just for the sake of my question, to disregard in this peak loading, peak day movements the shipments to Regina, how many, what would that bring the 60 down to and that is all, and taking the B. A., it is a mystery now so far as your company is concerned?

MR. HARVIE: Is there any evidence of that at all?

MR. FRAWLEY: Oh no, so far as I am concerned it is common sense.

MR. HARVIE: It is too common.

Q MR. FRAWLEY: What would you bring the 60 down to, Mr. Moore?

A I might as well start and make these figures all over, you asked me for one thing last night and you have been running around the country quite a ways.

Q Take all the time you like, I am quite apologetic, I am working along as well as I can?

A May I have a piece of paper for a moment, I have only last year's experience and I cannot tell you anything beyond that.

Q Yes, last year's experience?

A Oh probably about 7 cars a day figuring Sundays and all.

Q Seven?

A Yes, I would say that that would be, based on last year's shipments, Mr. Frawley, it would take about 7 cars a day to ship to

the smaller refineries to take it by tank cars.

Q That would be the average of course and what would a big day be, what would September and August?

A That is the day I took the statement.

Q Oh, the 60 you gave me a moment ago comes down to about 7?

A Well look at your bottom figures, you are as much of an adding machine, to decide who got the crude----

Q Then if that is shown if I am at all right, just assuming that I am right that there is a distinction, assuming there is a distinction between what you shipped for yourselves and what you shipped for the other people, then do you still think you need 120,000 barrels storage there?

A Don't you think that the pipeline must be able to operate, sir, even in a case of capacity, even although someone has to go around and pick up that oil afterwards.

(Go to number 6572).

Q Now, take seven times the biggest car, seven times 240 barrels?

A Well, that is 1750 barrels a day, roughly.

Q 1750 barrels a day. You have enough tank capacity for 600 and I am only asking you to relate the 600 that you have in tank capacity to the 7, or on the other hand, 120,000 and 1750. Now, just relate those two figures in your mind.

A If you are only going to take tank cars, yes. But if you are going to take evening up the working of the pipeline, in case of not being able to make delivery, Mr. Frawley,

Q For the tank cars?

A Oh, no, I am talking about anybody. The pipeline must have a safety valve on it somewhere, Sir.

Q For what? Just elaborate.

A Suppose, for instance, we had a nice big lovely fire down there and we could not take any crude for a week. We would simply notify Mr. Coultis we could not handle any more crude for this week. And suppose it is in the peak season.

Q Yes?

A You have a new pro-ration immediately effective in Turner Valley. It is not good common sense.

Q Who carries the load for all that, the Royalite Oil Company or the Imperial Oil, the pipeline or the refinery. That is all. I am only talking about the Royalite Oil Company as the operator of the terminal storage making delivery into tank cars?

A I am only talking about an emergency, Sir.

Q Who carries the emergencies, always the pipeline company?

A Not necessarily.

Q You have them though?

A Let me put it to you, we cannot take delivery say for five or six days.

Q Then what happens?

A And we will say our deliveries for the five or six days would total 7,000 barrels a day. There is only one way a pipeline can keep on an even keel and that is to keep on accepting that 7,000 barrels which they cannot deliver, in Turner Valley, or get a new pro-ration order until such time as the refinery is able to take on its rated load.

Q I can see where they are going to be completely short of storage if your fire was a very bad one, and your breakdown is not for seven days but twenty-three times seven days. They are going to have to have a huge storage?

A I would say that would be an entirely different proposition.

Q Well, it would be your time to have a new pro-ration order?

A I would think so. That would be common sense. At the same time it would be also common sense to run your utilities as regularly and as evenly as you can, if it was only something that might be temporary.

Q Of course, that is all very fine. If the pipeline could do that, even in spite of the fact they have very nice field storage. You are not losing sight of that?

A Not a bit.

Q But they still need the field storage and need this great big terminal storage?

A Once in a while last Summer we needed both the terminal storage and all the field storage.

Q But you are not limiting yourself to the storage necessarily incidental to delivering to tank cars and tank trucks?

A No, Sir, I am not. I think that the safety valve should be applied to the pipeline.

Q I understand what you mean. But if you were, and I will ask you to limit yourself, whether it be right or wrong at the moment, to limit yourself to just storage facilities necessary and incidental to delivering to tank trucks and tank cars. It would bring it down?

A I would say you might get along with about 60,000.

Q Let us get all these things on the record so there can be submissions made about them. Just half would provide adequate facilities for tank cars and tank trucks and then the other half to look after emergencies for refineries?

A Or tank cars, Sir.

Q Emergencies, you say?

A Well, tank car shipments, if you want to call those refineries, I guess you are right, call them refineries.

Q So then half to look after emergencies for refineries and half for deliveries into tank cars and tank trucks. There is nothing here in the two Exhibits, Exhibit "244" and Exhibit "245" for storage, is there?

A No, Sir, nothing.

THE CHAIRMAN: You might explore those two ietms of investment on Exhibit "244" and Exhibit "245" respectively.

Q MR. FRAWLEY: Mr. Moore, are these your figures or are they Toronto figures?

A They are Toronto figures.

Q Can you tell us anything as to the amount of $8600.00 which you show for the loading rack?

Q THE CHAIRMAN: What loading rack is that?

Q MR. FRAWLEY: It is your loading rack?

A The loading rack down in the yard used for crude loading.

Q THE CHAIRMAN: It is the existing one down there?

A Yes.

Q MR. FRAWLEY: One that has been there since 1923?

A No.

Q When was that put in?

A It is a reconversion of some facilities that were put in in 1923.

Q About the loading rack. Is that the loading rack you have in at $8600.00?

A Part of the equipment was there in 1923 and part of it has been put in the last three years, or two years and a half. I am only speaking from memory, Mr. Frawley.

Q Pump and lines, $31,000.00. That is what you are operating in connection with your loading rack?

A Yes.

Q And that has been there for many years?

A I put that in, we installed the pump and made the necessary changes to convert it when we required it for

loading.

Q Roughly, how long ago was that, do you know?

A We started loading cars, I think, sometime in 1927, didn't we, originally?

Q After Turner Valley was discovered?

A Yes.

Q Is that $31,000.00 the investment, the company's investment in that; the actual investment taken from the books?

A I would say so, yes.

Q These figures are the book costs?

A Yes.

Q And then you have allowed depreciation. Now, the trackage, $3,224.68, is that what the company has invested in trackage then?

A Yes, that is the value at the present time, used for this purpose. There is lots of trackage used in getting cars in and out of the yard and that is not in that particular cost.

Q This is the investment in the trackage necessary-----

A At the loading rack.

Q Necessarily incidental to loading?

A Yes. The terminal lines in and out, Mr. McGillivary, are not figured in that at all;

Q THE CHAIRMAN: Take the loading rack. We have been speaking about, $8600.00. That is the value of the rack as a whole?

A Yes, ready to load 24 cars.

Q If it was used 10%, on the scheme that has been put forward on your operating for Royalite, and the other

90% would be used for Imperial's own purposes, I suppose. I use the figures arbitrarily?

A Whether it is 10 or 20.

Q Yes. It is a rack used by the Imperial for its own purposes?

A If you will observe these figures, whether it is 8,000 barrels per day or 5,000, and the reason you can get your costs in such shape as that is due to the fact you have not to put up something which is just for one particular purpose. You are interlocking your utilities, as it were.

Q All right. The actual investment then is in respect of assets that are used by or that would be used by both. Either to serve the Royalite in the way you are suggesting?

A Yes.

Q Or to serve the Imperial, as the case may be?

A Yes.

Q Each using it, as it happens, you would, perhaps, be harmoniously using it that way. Now, we turn to these direct costs. That relates only to the costs to the Royalite?

A Oh, no, that relates..... I do not get you now.

Q Take salaries,for instance, $511.47?

A That would be our division of salaries that went against tank car loading.

Q It would have nothing to do with what proportion the Imperial was paying in respect to its own operations?

A Oh, no, that is the entire cost last year against that crude that was loaded on that rack,Sir.

Q MR. FRAWLEY: Including the Imperial shipments to Regina?

A And the B. A. shipments, oh, yes, they are all included.

Q MR. COMMISSIONER LIPSETT: Roughly, two-thirds of the shipment were for Imperial and one-third for B. A. and other shippers?

A Roughly, yes, that would be about correct. It is due to the volume that goes over that rack that allows the cost to be in the state it is in.

Q THE CHAIRMAN: Truck loading would be a new investment?

A Yes.

Q You haven't that material there at all?

A No, Sir. I have taken advantage of the service station loading, the white products, to establish the cost. And that is the point where I would want to load the crude because I have a service man there at definite stated hours.

Q Over and above the physical assets that are described in these Exhibits, "244" and "245", under the heading "Investments", the only other physical assets that would be required in connection with the terminal operation of the pipeline----

A Would be one for trucks.

Q Would be one for trucks and, of course, the tanks to the extent that-----

A There is one tank in there.

Q Oh, there is one tank in there?

A One tank, I think for the purposes of making that, I think, if I recollect, we used second-hand tank car, which would keep the cost down considerable from what it might be. It would be just as efficient for that

purpose as something else.

Q Then all that is left then for terminal operation over and above what appears on these two Exhibits is insofar as tank car and tank truck loading is concerned, would be 1-60,000 barrel tank?

MR. FRAWLEY: Yes.

A No, not 1-60,000.

Q THE CHAIRMAN: I thought that was your last word?

A No, 60,000 barrels of storage, but preferably in 3 tanks. 60,000 barrels capacity, but it must be split.

Q Yes, I see.

Q MR. FRAWLEY: There is one thing I certainly overlooked. I think you told me a moment ago this was the company's investment, original investment in that particular loading rack and the particular trackage and pump and line. Is that really what it is, do you think, or is not that the replacement figure. Because you would not be suggesting-----

A I think that is a replacement figure. It has been put up in this form.

Q You should show your accumulated depreciation otherwise?

A This would be a replacement figure.

THE CHAIRMAN: Replacement new?

MR. FRAWLEY: Replacement new, really.

THE CHAIRMAN: You do not know how they made it up, in fact, Mr. Moore?

A No, these figures are probably replacement figures. As far as administration, Sir, and depreciation-----

MR. FRAWLEY: If you were to accept the proposition that the Commission is interested in all the

facilities required to load for others than the Imperial Oil, accept that for the moment. Then, of course, the investment would be less, would it, or the same?

A Oh, the same. Since that is based entirely on just the cost, I would not expect to be able to do a job through Regina better than that.

Q What would your investment be, if you will assume now we were going out to construct a little plant to just serve, based on the 1938 experience, serve the people other than the Imperial Oil and the British American?

A Then you would have to have a considerable investment.

Q That is true. I wondered if it would be any different to this?

A I cannot tell you. I just used my own yard and what facilities I had.

Q How much direct costs?

THE CHAIRMAN: After all, hasn't he given us all the physical assets and the figures showing the replacement costs against them. He thinks that is what it does mean. Then he says there are three more tanks of 20,000 barrel capacity required. Now, those are their physical assets. If they do not choose to come and prove their costs, all right. Why bother with it at all?

MR. FRAWLEY: I am only guessing about it. What about the $8,204.52 for burden?

A That would be overhead and intangibles, that is what we call burden.

Q Burden, $8200.00?

A It might be what you might call a bookkeeper. He is on the pay-roll but he does not do anything constructive. He is more or less the policeman to catch the other fellow.

Q What about administration, $5,060.00, that is a proportion, of course?

A That is the figure that was handed to us. I would say it was a proportion.

Q And so would burden be a proportion?

A Oh, yes.

MR. NOLAN: I am going to ask you some questions, Mr. Moore, if I may?

THE CHAIRMAN: Yes.

Q MR. NOLAN: So far as the investment costs were concerned, do I understand they were made up in Toronto?

A They had our costs here on operation. We carry no administration or depreciation figures.

Q Well, do you know whether the figure of $42,824.63 are replacement costs or not?

A I think, Sir, they were replacement costs.

Q Well, do you know that by reason of anything you did to supply figures?

A Well, I took some figures East with me, Mr. Nolan, and we did ascertain the cost of that rack here. I know that. I think these pump figures are replacement costs. That pump cost and rack figure. I did not figure up myself.

Q You mean the loading rack?

A Yes.

MR. FRAWLEY: He ascertained it definitely.

Q MR. NOLAN: What did you mean, you ascertained the cost?

A We took that off the figures we had here at the time, our book figures here.

Q MR. FRAWLEY: Then that is the original investment.

MR. NOLAN: That is what the Chairman wants to be clear about.

MR. FRAWLEY: Something of one and something of another. How about accumulated depreciation, if that is what it is?

A There were some extraordinary changes made to change over the loading facilities and the unloading facilities. They were taken more or less in our stride to keep the stock moving.

Q MR. NOLAN: We have a figure of $42,824.68. Is that what it would cost to-day to re-create or reconstruct new the facilities?

A I would say it would cost at least that. I think the trackage figure is very nominal.

Q Why do you say it is nominal?

A Because we did not have to construct the tracks to these points as they were already there.

Q THE CHAIRMAN: I take it Mr. Moore is not clear, whoever put down these figures, and made this sheet, whether they looked to the original costs or to the replacement costs.

A I am inclined to think they are replacement costs, Sir.

MR. NOLAN: That is something we might find out and it might be of assistance to the Commission.

Q Now, I wanted to ask you something about the amount of storage. You say, in your opinion, under certain circumstances there should be 120,000 barrels, and under other circumstances 60,000 barrels. Now, if we had, for example, 120,000 barrels capacity of storage, not all of that storage, not all of that capacity would be available at all times, would it?

A I would say not, Sir.

Q Well, you spoke about some feet on top of the tank and some number of feet at the bottom of the tank?

A Right. From a practical standpoint I would not take the bottom four or five feet out of a crude tank.

Q What about the top few feet?

A Well, at least give your gaugers room enough to get transferred to another tank before they go over the top, because that would be one of those unexplained losses again.

Q What I want to get at is if you had 120,000 barrel capacity storage, how much of that is working storage and how much is not?

A Well, if a tank is only just constructed and gone into service I would say possibly out of a 40 foot tank you might consider pumping it down to the 3 foot level and bringing it up to the 38 foot level.

Q You take 5 feet off?

A I take 5 feet off, approximately. That would be a statement that would cover the first three or four years of the operation of that tank. There is always a little bit of degraded stock in the bottom of a crude oil tank.

Q What I want to get at is, by what figure would these figures you have just given us, reduce the capacity of 120,000 barrels?

A That would take off 18,000 barrels, off 3-40's. Roughly, 1200 barrels to the foot, or 100 barrels an inch.

Q If there be 3 tanks of 40,000 or 20,000 barrel capacity, could you draw from the 3 tanks all at the same time?

A No, you expect to have the pipeline turned into one tank.

Q What I want to get at is this, is one tank charging while the other two discharge?

A Possibly one charging and one discharging.

Q What the Commission would like to know is-----

A Why we want the third tank?

Q Yes, and if you can draw from these 3 tanks at one and the same time or have one or more charging?

A I would prefer to have one tank in the interim idle and two tanks in service, one being pumped into and the other being pumped out of.

Q You say you prefer that. What reason have you to support that?

A From a safety standpoint, because if I happen to be loading out of one tank, and discharging from the end of the pipeline into the other tank, it would be necessary on account of gauging, accurate gauging, and accurate filling of tank cars or what have you that there be an idle period in the swinging out of these tanks, which would be one of the functions of the third tank. Then you would simply turn the valve into the third tank, shut off the valve that was being

discharged into the other end of the pipeline, and then make your other change at the time you were through loading the tank cars or discharging to someone, maybe some other tank, because I still say I might have to have some oil due to temporary conditions put into the terminal tank, which would later, at my expense, be pumped to my storage, Sir. It would be a very common sense operation.

Q You said something to the Commission about some storage required for emergencies, and you made reference to the fact there might be a disaster to the refinery itself. What about a disaster to the pipeline, to the trunkline of the pipeline?

A Well, if that was disastrous enough there would be a disaster to all the refineries that were taking oil from Turner Valley.

Q Would it be a reason for having some terminal storage?

A It might be a reason for having buffer storage.

Q What?

A Buffer storage at the Calgary end, from which shipments and supplies to local refineries could be drawn in case of a major disaster to the pipeline itself.

THE CHAIRMAN: I am afraid I am bothering you needlessly about this statement.

A I will help you as much as I can.

Q Take that direct cost we have there on Exhibit "244", is that everything that was loaded into tank cars?

A Yes.

Q No matter for whom or whether the B. A. or the Imperial or anyone else?

A Yes, that is where you get your low factor is due to the volume.

THE CHAIRMAN: Now, have we finished with Mr. Coultis?

MR. NOLAN: Unless Mr. Harvie wanted to have him recalled, and ask him some questions which he did not ask him at the time he was in the box.

MR. HARVIE: There are just two possibilities. As far as the detail figures Mr. Coultis supplied, they have not been thoroughly analyzed and as far as I know there is no examination on those. But there are some questions I did propose to ask Mr. Coultis. I discussed them with Mr. Nolan and they are more on policy and Mr. Nolan does not think Mr. Coultis will be competent to answer, so we will have to take that up later.

THE CHAIRMAN: There is nothing more for Mr. Coultis?

MR. HARVIE: No, my Lord.

THE CHAIRMAN: And your next witness is?

MR. FRAWLEY: Mr. Peaker of Anglo-Canadian.

MR. NOLAN: Mr. Peaker will not take very long?

MR. FRAWLEY: No.

MR. NOLAN: And what next?

MR. FRAWLEY: In view of the fact Mr. Harvie's witnesses are not here I think we will have to go back to Mr. Burns on his production costs.

(At this stage the Hearing was adjourned until 2:00 P. M.)

::::::::::::

2 P. M. Session.

MR. FRAWLEY: Mr. Plotkins said he wanted to give some evidence as to the pipeline matter.

....

LEON L. PLOTKINS, having been recalled, examined by Mr. Frawley, said:

Q Yes, Mr. Plotkins, you wanted to make a statement as a witness with respect to the matter of terminal storage?

A Terminal storage.

Q Pipeline terminal storage?

A Yes, and deliveries.

Q Yes?

A On this question of storage I feel that probably it will help the Commission to present my views in regard to the amount of storage which I believe is necessary to adequately cover the requirements of the refineries outside of the Imperial and British American, and I am including all of the refineries and all purchasers of crude, of the West; now, if it were not for the fact that at times weather conditions and accidents prevent smooth normal operation, the question of storage would not be very vital, but there are not only accidents to take care of but weather; in my experience in the last nineteen years in this business I found ourselves where we had to accumulate as much as 40 days in the Fall, weather conditions were such that for that period, not a wheel turned in the country, crude would naturally keep coming in from the States, at that time we were importing, we were on a contract and cars kept coming in and the pipeline is in a similar position, the refineries are in a similar

position, they must accept the crude which they have contracted for, so we found in the past in our experience. I find that the Imperial Oil here, to take one instance, in the case of an emergency immediately notifies us that they must discontinue shipment and we find ourselves in a position where we have to shut down and we are not in a position to verify the accuracy of their statement that conditions compel them, with the result that we feel always that we are at their mercy; now, I believe it will be to the advantage of all refineries, in fact to the whole industry, including the Imperial and the British American, if the pipeline company provides itself with a reasonable amount of storage, and 120,000 barrels is hardly enough; it means less than 8 days' normal requirements, and if anything happened the Royalite or the Imperial would be justified possibly in saying "Well, I have only got 8 days' supply, we will give you 2, and you will have to wait until conditions are rectified before we can give you any more." Now, that may happen and easily would happen in the busy season with the result that the business, our business and the other companies' business, would be entirely disrupted because that is one of the pitfalls we have to guard against in the oil refinery business and marketing business, is to be able to have a continuous supply for our customers or we lose them and we lose them usually to the major companies, so that from that angle I would deem it advisable and

I think that the refineries and the trade, the independent trade, would be, if they could express their opinions to the Commission, would be, would concur in my views, that even at the risk of increasing the rate, which after all, may be only expressed in tenths of a cent for the extra storage, it would be well worth the fraction, and the present storage of 2-80's and 1-40, which is 200,000 is, in my opinion, the minimum that will adequately provide the industry with, against contingencies. Now, I do not recall the cost, the increased cost that would accrue to the pipeline and it would be reflected in the rate to maintain that much storage, but no matter what it is I feel that it is, that it would be justified as part of the function of gathering, transporting and delivering crude oil to the industry, because, after all, it is not the public that buys the crude, it is the refiners and marketers; now, when it comes to reviewing the separate terminal facilities, I have this to say, that while at the beginning of this Inquiry-----

Q THE CHAIRMAN: Before you leave the tanks, Mr. Plotkins, do you know the tanks that the Imperial are using, that the Royalite have been using and paying this rental for?

A Do I know the tanks?

Q Yes, have you seen them?

A I can visualize them, I am not sure that I have seen them, I have seen a number of tanks but I don't remember the number, but I can certainly visualize the tanks they would use.

Q I was just wondering whether you are in a position to express any opinion as to the value of them?

A Yes, to this extent, that I have considered purchasing an 80,000 and a 60,000 barrel tank for the purpose of providing ourselves with storage and-----

Q These tanks are what now, I just forget, it is in the record, of course, 2-80's and 1-40?

MR. FRAWLEY: Yes.

Q Yes, 2-80's and a 40, I am sorry, Mr. Plotkins, go on.

A Keeping in mind that those tanks which are now used, as we have been given to understand in the evidence before the Commission, are not new tanks, that is, they were bought somewhere in 1923----

Q MR. FRAWLEY: In September, 1924, and June, 1926?

A Well, they are ten year, I mean they are older than ten years; now, similar tanks laid down here, approximately the same age, laid down here and erected complete with a base and all the necessary dykes, can be purchased and I am assuming that they are in first-class condition, that is, as to the qualtiy of the steel and the condition and their finish or, if my memory serves me right, I am not in a position to definitely state this until I refer to some records, but I remember right, it is $29,500.00, that is for 80,000 barrel tanks. I am in a position by to-morrow-----

Q Per tank?

A Per tank, yes. I would be in a position by to-morrow to give the exact figures and to quote them for the various size tanks down to 20,000 barrels.

Q The figure you gave is in respect to 80,000?

A 80,000.

Q And you say 40, what would that be?

A The 40, if I remember right, is around 20,000, they average about 70% of the cost of a new tank, and the cost is higher here due to the fact that while the tanks can be purchased, the 80,000 barrel tanks can be purchased in Sunburst for $5,000.00, the cost of dismantling is very little, but the duty and taxes and transportation and re-erection bring it up to that figure; now, there are hundreds, Mr. Chairman, hundreds and hundreds of these tanks available all over the United States; in other words, there is a surplus of steel storage at the present time all over the United States fields, and as a result they can be purchased on an average for that much money, $5,000.00 a tank, the smaller tanks for less.

Q How do they go down, you have given us 80 and 40, how about the 20's, Mr. Plotkins?

A I cannot say without referring back to the correspondence and quotations.

Q Very well.

Q MAJOR LIPSETT: We have the evidence, Mr. Plotkins, that these three tanks when they were put up in 1924 and 1926, cost $143,000.00, of which $131,000.00 had been written off in the intervening period?

A Well, Mr. Commissioner, the only answer I can make to that statement is the same answer I made to all these statements; I have written it down so that I can, I have had time to think over it and express my opinion

on that matter and it is this, you see, there is a principle that governs all these transactions according to the Standard Oil practice and the principle, I am going to try and define it, so that you will be able to govern yourselves accordingly to interpret the value of all these different statements, and it is this, the key principle which governs the Standard Oil Company's methods of doing business is to impose and enforce on their creditors, the public and the Government, conditions that in performing any function will effectively under all circumstances result in an absolute practical control of key operations; you see, it is necessary, if you are going to govern prices, that you govern and control on a practical basis the key operations, because if you lose any one of them you lose control of price-making, of price-fixing, so there are various steps, and I have recited them here in order, various steps that are necessary to justify prices, plausibly and in fact, - the first one is, to control the key operations; the second one is to raise costs to the limit of the public's ability to pay; the third one is, using these maximum costs in setting their own selling prices, in other words, if they can create conditions for me that cause me to produce a gallon of gasoline at the cost of 10 cents, they can then set their own selling price based on my cost of producing a gallon of gasoline at 10 cents, and that is in the producing end, the same in the marketing and the same all the way through. Now, four, justify their own selling prices by the costs of their competitors; the competitors are really not

competitors because they can only play a minor role in the industry, they have to follow and their actions are governed by the conditions and the operations that are under the perfect control of the Standard Oil in any one phase of the industry; now those permit Standard Oil to exact several profits, instead of one profit, to each operation; now, we have noticed during the course of this testimony how reluctant witnesses are to tie or to give any basis concerning a complete operation; they split it up and usually and in fact almost invariably, several corporations divide the functions that should be and is in reality one operation, and that is one of the means that is absolutely essential, if the system is to work; what appears as expenses in the several subsidiary companies that divide themselves into one function is in reality turned into a profit; if we can create such conditions that one company views and majors the cost to another company, what appears as an expense is turned partly into a profit because the original cost of buying a tank may be, say $10,000.00, when it reaches the user it is figured at $30,000.00; depreciation is demanded at $30,000.00; interest is demanded at $30,000.00 and we have that one continuing principle in operation in the oil industry because the Standard Oil in the last seventy years has been able to not only conduct its own business and control it from start to finish but has been able to create the companies that supply it with its every little necessity;

in other words, if a tank is required, the steel company is owned by the Standard Oil; the fabricating company is owned by the Standard Oil; the distributing company is owned by the Standard Oil, and when it reaches the company which actually uses that tank the price is what the head office has calculated that the industry should pay to create a certain cost and create a certain condition, so that that principle governs all these statements; now, it may be hard for the average layman to believe that, and I do not doubt it is hard for the Commission to believe that but I believe that I will be able, if I am given the opportunity through the witnesses that will appear here, to show step by step how that is done, and with the witnesses of Standard Oil and Imperial Oil, because, fortunately for me, one man does not know what the other man does, and it is only by the Commission correlating the above conditions and seeing through them that, it will be able to see the thread, as we say in French, that runs through the entire fabric, and connects them all, and yet they are independent;

Now, I have a few more remarks to make on that matter; the system through, the system creates devices to suit circumstances because as conditions change from one year to another or from district to district or from country to country they must of necessity adapt themselves to it so that naturally conditions or the system or the devices are not necessarily alike here as in the United States or in France or in Great Britain, but the principle

underlying them all is exactly the same, because there is one thing that I must say, the Standard Oil's system as it was devised sixty or seventy years ago is a logical one and can be followed by anyone who has the ordinary intelligence and will make a study of the principles under which the business is conducted because it is perfectly logical, it takes advantage of the fact that the other man is honest and that he falls easy prey to a group of men or to a man or to a system that raids the average man's pocket-book, so that the system, as I say again, creates a set of steps, sometimes three, to perform one operations if conditions are such that that is required, sometimes five, to perform the same operation, five different steps if conditions are such that the conditions require it, so that it does not follow that because a certain condition exists in the United States the same condition exists here, but it does follow that the same logic and the same methods are used here as anywhere else, not only in the United States but all over the world, and when I say all over the world, you may put it to me "What experience you have", Well, it just happens that I have kept in touch with conditions in the oil industry all over the world and a number of years ago I was asked to make a report to a certain Government on the methods of Standard Oil all over the world and in particular with this country and I had at my disposal from this Government's reports from their agents located in different parts of the world, and I found that the, what will I say, the signs, as I expressed it a few days ago, are the same, whether it is in China or whether it is in Canada, or

whether it is in Italy; in other words, while the conditions change to suit the language and the methods of Government and so forth, the methods of business that the Standard Oil followed, are exactly the same all over the world, so that when this Commission investigates the cost of production, or in this case we are talking about pipeline, it is impossible to make any division, clear cut division between the pipeline function and the producing function and the selling function of crude oil, for this reason, - you have no doubt remarked, Mr. Chairman, that the witnesses, the previous witnesses in connection with this terminal are not very anxious to have a separate terminal; they have made an offer of 2 cents a barrel to keep it in the hands of Imperial Oil; well, the reason behind that, I am not imputing any motive to the local officers because, after all, they are only governed by what is decided in Toronto and New York, but the reason behind that is the same underlying principle, the Imperial Oil and its subsidiaries, the Royalite in this country, in this Western country, must at all cost continue to supply the independents, that is all the requirements of the independents outside of the British American and themselves, if they are to retain the power to decide what the price of crude is and how much shall be produced, so that I, in the cross-examination of Mr. Moore, I asked him one question and I want to go back to that, if he could explain why last year we supplied a number of small refineries, the Gas & Oil supplies a number of small refineries, but

this year we no longer supply them, why, because we were even last year at a disadvantage in supplying them as compared with the Imperial Oil or Royalite, but we at least did meet the situation and this year the Imperial, rather than allow us to build up more output for crude oil and thereby create for ourselves a source of supply in Turner Valley under our direct control, is going to take less profit at their end, being the conditions and circumstances compelled them to make sure that the source of supply still remains in their own hands; in other words, they are going to see to it that no matter who buys the crude that crude will be produced by them or under their control, transported and delivered under their control, because if we secure as much as 10% of the production in Turner Valley, of the total production in Turner Valley, that they have not under control, not only the system of nominating the price in Turner Valley will be lost by them but the price of refined products will be lost, the control and the setting of that price will be lost to them, so that I am coming back to that principle so as to penetrate the Commission of its importance in dealing with this Inquiry right throughout, that all the actions of Standard Oil are key to that one aim, that one result, to control the sources of production because if they continue to control the sources of production, - and we will go into that when the time comes, - they can then dictate the conditions under which crude oil will be marketed, will be refined and will be sold to the public because there is no fear of competition; while there is competition

amongst their own units it is only to make more money, but it is not to benefit the public, because the only way the public can be benefitted would be by a reduction in price or more value for their money and, of course, that is not the aim of this system, the aim of the system is to exact, and that is the present method, every cent that the people in the country can pay, and when we come to marketing I will have an opportunity to show how that is calculated; when it comes to crude or to pipeline, it is not so vital for this reason, that the oil business, that is the oil industry, is fortunate in having it divided up into divisions so that when conditions are created by Governments or by public popinion, that causes prices to be reduced in any one division, the profits of necessity, not necessarily are reduced, because then the burden or the division of profit is then shifted from one division to another, and until the Governments are able to investigate this business in its entirety and prevent, and correlate the various divisions; in other words, simplify it, the oil industry's function, it will always be that way. If the price alone is reduced, the carrying charge, reduced from 15 to 10, and the system demands that 5 cents because the public can pay it, 5 cents will be added to the cost or to the crude price or to the refined price or somewhere in between, but the net result will not be changed;

Now, I have only a few, a couple of paragraphs there that will probably explain that a little better; oh, yes, and another thing, not

only are they able to increase their profits from commercial operations but in the last ten years, fifteen years, with taxes mounting from year to year due to unemployment and other factors, I find that we are now able in our industry to turn taxes into profit.

(Page 6600 follows.)

And as a result we find that the imposition of high taxes and red tape instead of being a detriment to the Standard Oil and to the larger units, is actually a benefit, because the taxes are capitalized. I will, when the time comes, in connection with marketing, be able to illustrate that. But even at the present time I want to make that remark because it is essential for the Commission to understand these factors that influence the actions of the Standard Oil, and when we find small companies struggling to establish themselves, and we find the Gover ment taking steps to close them up because they have contravened one thing or the other, due mostly to ignorance on the part of the Government officials, and the Commission before this Inquiry is terminated will see the role that taxes play, and it plays a big role in this business, because the oil industry does pay a huge amount of taxes. It is not the oil industry that pays the taxes, it is the public. What I am trying to point out now is that Governments are endeavouring to tax the companies' profits and they have not yet succeeded. Taxes are not a burden but a source of profit to the industry. And that is one of the aspects I do not believe has been given to the Commission in the brief or to the Commission at all. I am going to try when the marketing phase of it is investigated and inquired into, I am going to try and show why. Now this principle, and I am talking about the principle of splitting up business and creating conditions, etc., this principle is applied in all the operations of Standard in every phase of the industry and enables them to maintain against all comers prices and conditions that are calculated on the public's maximum ability to pay instead of on value or cost.

I want to make a few remarks there. The Commission has no doubt been struck with the fact that the witnesses that were called from the East impressed us very fully that cost had nothing to do with it, it is competition, and we have also, at least to my satisfaction, have been shown that competition on the matter of crude oil prices does not exist, because prices are set to suit conditions all over the North American Continent, including Canada. So that that price is not based on cost of production, but on the ability of the public to pay. If the Commission can penetrate themselves with this governing principle it will enable them to unravel the seemingly inexplicable complicated methods of performing simple services. We find the service such as transporting crude oil. Normally but one company would perform the function of gathering, transporting and delivering. But the reason there is two companies, and there is a good deal more than two companies, because nothing is done by the Royalite and nothing is done by the Imperial in connection with transporting crude or selling crude without New York saying that it is O.K. It is due to this fact that the Imperial, or the Standard Oil rather, in its business cannot divorce the functions of transporting from its general business because if it did it would in turn lose control of the different operations and it is necessary in its business, if its system is to work, that when the Royalite is to deliver a barrel of oil to anyone the officers in New York must assure themselves that it will not be detrimental to their general interests. With the result that when I want to buy crude and have it transported through this pipe line I must apply to

the local officers of the Royalite, who in turn send me to the Imperial and the Imperial in turn wires Toronto and in turn they wire New York and where they have all the information that is necessary to find out what I am doing and what I am not doing, and whether I am a menace or not, or whether I am amenable to what they feel I should do or not, and then they decide whether they will sell me crude, or even transport crude for me. Those are the conditions that the Commission must understand if they are to judge as to the value of all these different statements that have been presented as to costs. It will then be possible for the Commission to cut through and ignore the roundabout elaborate corporate systems erected to perform one operation such as pipe line transportation to attain their ends and suit them to existing conditions.

That is all I have to say in general. I am going to take up some of the individual points. In connection with the area I think the Commission has asked us to give them our views as to the delivery area, that should be considered by the pipe line delivery service. After giving it some thought and consulting with the British American solicitor and production manager, so as to put it on a practical basis, I have come to the conclusion that it would not be any burden on the Royalite Company to ask the Commission to set a three mile refinery area. In other words, that anyone within a distance of three miles that was willing to connect up to the trunk pipe line - and I am going to deal with that part of it a little later - should be given that privilege at an all-inclusive cost. With regard to deliveries, while it is the practice and the general practice in Montana

for the different pipe lines to deliver to independents or other refineries in lots, minimum lots of 500 barrels, we here have been dealing with much higher figures. So I did not expect or did not hope to succed in securing that lower minimum. So I am going to ask the Commission to consider a 1500 barrel minimum, although I believe it would encourage more refineries and more independents, to the benefit of unemployment and other matters, if the 500 barrels minimum were set. Because while one of the witnesses made up quite a lot about the extra cost of gauging, as the Chairman rightly pointed out, it is included in the cost. The Company will be reimbursed for any expense it might be put to and if that is the only reason then I believe that it would be better to have a 500 barrel minimum set instead of 1500 barrels. Especially if we take into consideration that as Canadians we want to take full advantage of the fact we have an oil field, and possibly more oil fields. We must develop technical men, and men capable of producing and refining and marketing oil on their own instead of it being done by somebody else somewhere else. The only way we can develop men, the only way any place develops them is if they have an opportunity to start with or they can go on work somewhere else and keep their eyes open and work hard and get the necessary knowledge to start refining and marketing companies of their own. If we discourage that or make it impossible it is going to mean that instead of emancipating ourselves from the present conditions as I view them, they will be perpetuated.

Q THE CHAIRMAN: What do you mean by 1500

barrels and 500 barrels minimum?

A At any one delivery. Because with 500 barrels it means the average small refiner could have two 300 barrels tanks in respect of crude without any great capital investment. Whereas if you make the minimum 1500 barrels it means 2000 to 2500 barrels of storage that is necessary, and steel storage in the smaller tanks is away out of proportion in cost to the big tanks. You have no doubt noticed that as tanks get smaller the cost per barrel increases. A 250 barrel tank instead of costing 60 cents a barrel costs $3.00 or $4.00 a barrel. So the smaller the operations the greater the handicap they are up against with bigger operations. So apart from any technical angle the small refiner or the small operator is already at a big advantage, and that is one angle that I would like the Commission to consider.

Q MR. COMMISSIONER LIPSETT: When you talk about the three mile area, Mr. Plotkins, is that your maximum under any circumstances?

A Oh no. But I figured it would not be fair, possibly, in view of Mr. Coultis' statement, that after a certain length of pipe that the cost of forcing it through might be increased. In other words, that if you had 15 miles or 20 miles additional pipe line it is conceivable that the cost would be greater. Therefore there should be either a higher rate or an extra charge.

Q Supposing you got a man say three miles away who might only want 25 barrels?

A 25 barrels?

Q Or some very small operator would you think that that charge should be put on the pipe line to construct three

miles of pipe and charge it in the general rate?

A No. You probably did not understand me, Mr. Commissioner. I was of the opinion that each refinery within the three mile limit would construct its own pipe line to go to the trunk line, and before it would undertake that expense it would of necessity have in view some permanent operation. When you say 25 barrels I am suggesting that the minimum deliveries be 500 barrels.

Q At one time, yes?

A At one time. So that 25 barrels would not be possible. It would not be possible for anyone to ask that 25 barrels be delivered to them.

Q Does it follow from that your view is in the case of the British American and yourself that you should incur the cost of the connection with the pipe line?

A After listening to all the witnesses and all the discussion that has taken place, I believe it will simplify the Commission's duties if that part of it is assumed by the refinery. I do not think it is fair but at the same time if it has the effect of hastening the closing of this phase of the Inquiry - and after all I can add this to that recommendation, that is that a small charge per barrel, possibly 1 cent, be paid by the pipe line to the person or corporation that puts in the line to reimburse itself, so that the pipe line would not be called upon to put up any investment and take the risk of a refinery never operating or a refinery taking only a small amount through the line.

That is as I understood it what you were saying before. But that means in effect that ultimately the pipe line company pays for the connection.

A Sure.

Q Your present and final suggestion is you put up the money in the first instance, in your case, and get it recouped out of a deduction in your rate, is that it?

A Yes. The traffic that I give the pipe line. So that really the pipe line customers are not penalized. I am furnishing the traffic that will ultimately pay for my own line.

Q That is only another way of saying that delivery to your refinery should be made by the pipe line company?

A That is correct.

Q Well now, in connection with that you suggest then the three mile limit?

A The three mile limit unless Royalite is willing to be more generous and make it four or five.

Q Have you ever considered it from the point of view that each case might possibly require to be decided on its own merits. It may be a question in each individual case that the Commissioners of Public Utilities should consider?

A Well in any case the refinery will have to make application to the Board of Public Utilities for a connection, as I understand the present Act. And the Commission, the Public Utilities Commission will then be in a position to review any factors that may influence their decision. But as a matter of practical operation if the refinery itself is willing to put up the money to find the right-or-way, overcome all the obstacles necessary to connect with the main pipe line and take deliveries at the minimum rate, the pipe line is out nothing. It stands chances of creating for itself additional revenue. So that the individual circumstances should not weigh into the matter only to the

extent that the Commission, the Utilties Commission might deem wise. Such as fire risks going through certain territory. But I mean as a commercial risk, there is not any reason why the Public Utilities Commissioners should discourage even a very small operator that is just starting in, that might not be able to build up his business for a year or two years to any appreciable amount, yet he must if he is to be given any opportunity, be connected to that pipe line. So if he is willing to put up the money, to put in his own pipe line and satisfy the Public Utilities Commission as to the conditions, I deem it reasonable that he should not be penalized just because he is starting in, and might not have as big a market as his competitors.

Q You mean if there is any question about the desirability of the investment for the connection, that you think the refiner should put up the money in the first instance and then get it back by abatement in the rate?

A That is correct, sir. Of course, it may be said, as Mr. Coultis has said, it cost $700,00 to put in the connection. Of course them figures are just on a par with all the rest of the figures. What I mean by that is, in my opinion they are a little excessive. Even that could be borne by the refiner if the Commission so decided. At the same time we will assume that those figures are correct and it does cost $700.00. The possibilities of extending the market for our crude out-weigh any considerations of a few dollars that it might cost extra for either storage or pipe line diversions or anything of the kind, because again I want to point out that unfortunately this business is an integrated business and we cannot look at it strictly from any one viewpoint. If the industry has a lot of crude

available in Turner Valley and its object is to market that crude it will have to make sacrifices in some phases, in one or another, to put that crude on the widest possible market. As the Commission will provide the funds for operating, or for making possible a rate that will be such as to give a profit to the Royalite, I believe that the minor matters such as these connections we are talking about, should be disregarded on a strictly economic basis. Because as I have already pointed out there are other aspects and that is we want to encourage not only the sale of oil but the development of the human element in this oil business, which is strictly Canadian and indigenous to this country. If we place all kinds of obstacles such as exist to-day, we are going to continue in the position we are to-day. Before this Inquiry is finished I think the Commission will be satisfied that we are playing a very minor role and the marketing of the Turner Valley crude is out of our hands entirely. I hope that that will br brought out and something done about it.

Q If I am not interrupting you too much, Mr. Plotkins, there is another matter that I think perhaps you might develop a little too. You have told us your ideas about delivery as far as your refinery and British American are concerned. You have also told us about your opinion on storage?

A Yes.

Q Would it be possible for you, you have seen the figures that have been produced this morning as to the investment in delivery facilities in the Imperial yard, would it be possible for you, either at the end or now, or your engineer by inspection or in any other way to give us your idea of what the present value is of the facilities

that are necessary for making all these deliveries to truck and to tank cars, including the three storage tanks you think necessary. What you think a fair operating cost of that would be?

A Three big storage tanks you refer to?

Q The three you considered necessary that are there. If you could give us a figure of the present value of them. Because if delivery is going to be made obviously there would have to be something included in the rate for it in some way, and if you could give us your idea of the capital value of the investment that is reasonably necessary for delivery, and also any assistance as to what you think the cost of that service is spread over a year?

A I can do so, Mr. Commissioner, The only thing that is worrying me right now is my men are all working and it would take a little time. If you would give me two days and if the Imperial will furnish the details or allow us to inspect the property, I certainly feel we could give the Commission the figures that we could erect them for and would undertake to erect them for.

Q I was thinking somewhat of their present condition, and of the extent to which they are needed for this delivery, as apart fro, the extent to which they are needed for the Imperial, which is not a public utility.

A But, Mr. Commissioner, if I may express some views on that matter.....

Q What I was thinking of, Mr. Plotkins, the actual facilities for delivery down there are used partly, or would be used partly in connection with pipe line deliveries, and on the other hand they would be used partly for the private bus-

iness of the Imperial as distinct from the Public Utility business?

A Yes.

Q If we could get some assistance from you as to what the capital value is, the cost of the given property, proper to the delivery service and what that delivery service exactly should be, it might be of some help.

A I want to express an opinion here, Mr. Commissioner, if I may. If we take the figures into consideration, is it of sufficient importance to delve into these minor matters when we have not gone into it in that extent in the major matter of the pipe line investment. In other words the question of storage and these other delivery facilities are, after all, insofar as they represent investments, very small. If you will study them you will find the major item is operation. In other words, labour in connection with it and administration. And the thing that struck me in all these statements is the duplication of labour. In other words where separate corporate entities make that possible, you might have one man performing three different functions, and on a book basis it could be set out as three different salaries. I am going to illustrate that probably graphically.....

Q What I was putting to you in reference to that, Mr. Plotkins, is this, whether you have any figures that you can give us that would be of assistance in arriving at the correct figure or whether you think these figures as they stand are correct and should be accepted by us. I am asking an expression of opinion from you, either after you have inspected it and you have worked out what it should be.....

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A I would like an opportunity to state that and give you an answer, Mr. Commissioner. I would not want to express any offhand opinion.

Now another matter I want to draw to the attention of the Commission in connection with the deliveries of crude oil is.....

THE CHAIRMAN: Leaving aside for the moment what actual costs of operation are; leaving aside for the moment the actual capital investment in respect of terminal facilities; there is something else regardless of the capital investment, perhaps the public should only pay a fair rate?

A Yes.

Q What is a fair rate? Do you care to express an opinion?

A A fair rate for loading?

Q In respect to all types of deliveries. Assuming everything you say is right for the purposes of this question only, that these integrated companies have several charges and everything else, and that charge can be piled upon charge. It does not touch this. The service to the public is only worth so much?

A Yes.

Q And perhaps in some people's view the public should only pay so much because they should only pay that which it is worth, and perhaps that should be measured by what is paid in fields where there is unrestricted competition in that kind of service. But bringing your mind to that type of valuation for the moment, have you anything to say as to whether or not the proposals made, that you have heard, are reasonable or unreasonable? I mean to say I am not now discussing at all that this Commission

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would even consider the proposals. We are not here to receive proposals but rather a figure given, be it a reasonable one or not?

A You are now referring, Mr. Chairman, to the 2 cents charge and the 7½ cents?

Q Yes.

(Go to Page 6613.)

A Well on that subject I am weighing that figure against the 2½ cents per barrel that the International and the two or three other pipelines in Montana charge for a similar service to the smaller operators; what they charge to the Imperial Oil or amongst themselves I do not know, but having that in mind, 2 cents would appear very reasonable; forgetting about capital investments and all that, so that when it comes to truck loads, having in mind----

Q THE CHAIRMAN: Excuse me please, so that we will not have any confusion, you are talking about a flat 2 cents?

A 2 cents a barrel.

Q Yes, you are not talking about any additions, about losses of one kind or another or rental charges for tanks or anything else?

A No.

Q You are talking about a straight 2 cents?

A Straight 2 cents for loading.charges with no additions at all; in Montana we pay and have paid 2½ cents and there is no extra charges of any kind, it is just 2½ cents a barrel added to the cost of loading.

Q Yes?

A And having in mind our cost of loading and any other efficient refinery's costs of loading, when you take into consideration that we do not have a crew and an office and everything else just waiting for that particular loading, I would think the 2 cents would produce a pretty good profit; that is all.

Q And equally you think it is not an unfair charge against those who require the service?

A No, I do not think it is unfair.

Q Now you were going to speak-----

A Of the truck loading.

Q Yes?

A Well the truck loading------

Q MAJOR LIPSETT: Just a moment, Mr. Plotkins, just before you pass from that, that 2 cents loading charge would be made of course from the amount of crude which would be loaded into tank cars?

A Yes, on the capacity of the tank cars.

Q I mean the total amount would be two or three million barrels in the year, we have got it?

A It would not amount to that because the refineries would only be charging those that they load tank cars for outside of their own organization; I mean the Imperial for instance or the Royalite could only be loading tank cars for those who are not able to load their own.

Q And it would impose, it would be imposed on the refineries in Saskatchewan or any other place else?

A Yes.

Q Independent refineries?

A Yes.

Q Now have you any idea as to whether one could estimate what the total of that 2 cents spread over that many gallons would be, do you think that should be made as a separate charge for loading or do you think it should be part of the general system of delivery and included in the delivery rate?

A I believe it should be made a separate charge because after all that is a different service and while it may be part of the delivery it is a different kind of delivery and requires different pipe service and without giving it

very much consideration I would think that it would be fair to make an extra charge.

Q Well now on that and I am again trying to get your views, you take the view, I take it, that delivery to your refinery should be done within the rate, part of the bulk rate charge?

A Yes, by the way I am changing that, after giving that matter some thought I made a note here, I made a note that while it may be justified to have an extra rate on its merits alone, that to encourage sales which will in turn increase traffic for the pipeline and reduce the rate it could well be included in the delivery, in the all-inclusive rate.

Q I was just anxious so far as I was concerned, Mr. Plotkins, to have it ventilated and to get your views, because there are the two points of view, one is that you deliver right into the refinery, the same as the Imperial?

A Yes.

Q The second angle that may be suggested is that you should deliver into the tank cars just as much as into the refinery, I do not know, but if you have any views upon it I would, so far as I am concerned, I would be glad to hear them?

A There is this difference, Mr. Commissioner, the delivery into the refinery, all the risk and responsibility is on the refinery at the delivery point.

Q Is that not at your tank?

A At our tank.

Q In your property?

A In our property, whereas if the pipeline or the Imperial or anyone else loads, it is responsible until the time that tank car leaves, is in the yard or on the property of the carrying company; the railway, so that there is a risk there,

there is insurance, there is a lot of other items that might be conceivably taken into consideration.

Q But if you treat your tank on your property on the one hand and the tank and the railway car on the railway, are they not both the same?

A They are a different matter, no, for this reason, when we sell a tank car of refined products we sell it at a certain price, and if we sell a truck load, we sell it at a truck load price.

Q I am not thinking of trucks for the moment, I am trying at the moment to get the picture of the similarity or dissimilarity as between delivering into the tank at your refinery and delivering into the tank on the railway freight yards?

A In the final analysis there is not any, beyond possibly a little more work.

Q THE CHAIRMAN: Well in the one case they put it into your tanks at your refinery?

A Yes.

Q In the other case they, as I appreciate it, they must put it into a tank?

A Yes.

Q And then elevate it out of that tank into the railway car?

A Yes.

Q It would appear at the moment to me to be a second operation?

A It is, no doubt about that.

Q And what Mr. Commissioner Lipsett wants to know is, what your views are, if any, as to that, for any reason, being included in the one general rate?

A Personally I would like to see it included in the rate having in mind the general advantage to Alberta and to our industry and to the Public, in that it will----

Q Even although you would be one who is helping to pay for the service with which you are not concerned?

A But in turn I would benefit through the increased throughput that possibly would accrue to the pipeline and would be reflected in a lower rate in the future, perhaps.

MR. FRAWLEY: How about the tank trucks?

THE CHAIRMAN: We are just coming to that.

Q MAJOR LIPSETT: There is no question, I suppose, Mr. Plotkins, that under any circumstances, as the Chairman pointed out, that when it is loaded into the railway tank car, that that must go into a storage tank first, there is no such procedure as putting it from the pipeline into a tank car I presume?

A Not on a practical basis.

Q So there is that much additional operation, that you first put it into a storage tank somewhere and then put it from that into the railway tank car?

A That is correct.

Q And that is part of the storage I suppose that Mr. Moore and Mr. Coultis told us would be necessary for the service?

A Yes, but you see this storage is already necessary whether you load tank cars or not.

Q Yes, I get that point.

A So the storage end of it is not very material.

Now when it comes to tank trucks, again we must sacrifice the economic angle, the same as we do in our business in various instances and satisfy demand, conditions, but it occurred to me this morning and yesterday when the rates of the proposed costs were given to show that such a rate would of necessity drive these trucks to getting their supplies direct in Turner Valley because----

Q THE CHAIRMAN: What is that, I am sorry I didn't

follow that?

A If the rate is going to be anywhere near 7½ or 10 cents a barrel to get loaded in Calgary at the terminal or at the Imperial Oil or anywhere else, having in mind that it can be trucked from Turner Valley direct for 26 cents a barrel or less, the average small refiner that wants to get his deliveries in tank trucks will go direct to the Valley.

Q And why, I mean then taking the present rate as your guide?

A Yes, that is correct, no, I am wrong, I didn't take into consideration the 15 cents; I am keeping in mind my own case where we pay 6 cents.

Q You are hoping to get rid of that?

A I am hoping to, that is correct, I am sorry, 7½ cents a barrel is quite a loading charge and having in mind that it can be performed at the same rate and at the same time as the other operations and by the same man, possibly that phase should not be loaded up with the expense which has been shown on the statement and that is about all I care to say on that except to express the opinion that 5 cents a barrel would be ample and will cover the cost and a profit on loading tank trucks under all reasonable conditions.

Q MAJOR LIPSETT: Well now just on that again, Mr. Plotkins, if I might pursue the thought I had before, that 5 cents in the estimate of 100 barrels a day would be $5.00 a day or on the 7½ cents would be $7.50 a day and that of course spread over the whole throughput of the line would be an infinitesimal sum per barrel?

A True.

Q Very small, have you any views as to the cost of trucks, whether that should be absorbed in a general rate and

given free delivery or whether it should be a separate charge?

A Well as a matter of fact----

Q It occurred to me that in the case, I think, of Mr. Munroe, he gave evidence that if he got oil delivered to him at his trucks, that it would cost him I think 9 cents he said to bring it to his refinery and I think he was willing to pay that but if you put 9 cents and then 7½ and then the pipeline rate, it makes it a very big thing and I was just wondering whether you had any views as to whether that delivery to trucks should be in the general rate or not?

A That is one thing, I am glad you mentioned, Mr. Commissioner and Mr. Chairman, I was distracted at the time, we have the 15 cent rate, we have 7½ and we have 9 cents, that is about all, that is the least it will cost to take it from the terminus of the pipeline to the refinery of Mr. Munroe and we may not, we have then a condition of 31½ cents; it can be trucked at a profit from Turner Valley for 26 cents; there is no doubt, and it will eliminate that re-handling; I am distracted a moment from your answer----

Q It is the same point, on that basis the traffic would not pass?

A No it would not and until the pipeline rate comes down to where it is less than 26 cents all inclusive, the trucks will go to Turner Valley and 26 cents produces 6 cents a barrel profit, so that actually the cost is 20 cents and it is conceivable to me that an independent, obtaining his oil in truck loads, will prefer to deal with an independent producer and not have the Royalite or anyone else handling his oil because there is another advantage, apart from the loading time, the Imperial will impose conditions

that will make it difficult for the trucks to get there and to get delivery, that is basing myself on my past experience and there is another advantage of the truck going to Turner Valley, it will be able to pick its oil and get the actual oil which it purchases and for that reason if the rate was above 5 cents, 15, 5 and 9, that would be 29 cents, it will be more profitable and practical for the individual refiner that wants to buy oil in truck loads to go direct to the producer in Turner Valley if he is able to buy it.

Q MR. FRAWLEY: What is the 9 cents, Mr. Plotkins, please?

A The 9 cents is the least you can truck a barrel of crude from one point to another in the City.

Q That is from the loading rack to Mr. Munroe's refinery?

A Yes, or even to mine, it will take that much, you have to load it and unload it and you have to tie the truck up.

Q That is 31½ cents?

A Yes, so that from the truck loading standpoint I am glad to see the Imperial discourage it because it will most likely mean that the truckers or the companies that want to buy their crude in truck loads, will go direct to Turner Valley or other fields, and there is another aspect with connection to the trucking, if we discover a new field which is not on the pipeline and until that field produces in sufficient quantities, the only market it will have will be small refineries that buy in truck loads and that is usually an incentive for independent operators developing a new field to continue their operations because in a good many cases, due to the fact that the Standard Oil or the Imperial will not buy their crude at the initial stages of development, because there is not sufficient quantities,

the operators usually find themselves in financial difficulty in being able to sell their crude so that trucks and refiners buying in truck loads offer a means of disposing of that crude and those trucks are then able, particularly when weather conditions are favourable, to go there, so that that will be a benefit to the industry as a whole from the standpoint of Alberta; now that is about all I can say I think.

Q THE CHAIRMAN: What will be the benefit, if what?

A If the truckers are not tied down to buying from the Imperial Oil at the terminus.

Q There is no thought of trying to tie them to the terminal, but what the Commission is curious about is if they do not want to truck from Turner Valley but they do want to get truck waggon loads at Calgary, first, along the lines of your reasoning at what price must they get it in order to make it desirable that they should seek it and also what is right for the Imperial or the Royalite or both, that they should be required to do the service for; merely because it costs more to bring it from Turner Valley by truck or rather that it would cost more to get it at Imperial, than to haul it from Turner Valley by truck, does not mean that the Imperial should have to do business at a loss; there are two considerations, one, what is fair to the man who wants to truck and two, is it also fair to the one performing the service for the truck man?

A Well in order for the truck refiner to purchase on an equal basis at the terminus of the pipeline, than in Turner Valley, he would have to get his oil delivered to him for 17 cents all inclusive costs of transportation from Turner Valley to Calgary under present conditions.

Q MAJOR LIPSETT: That is on the present rate base?

A Yes.

Q THE CHAIRMAN: Yes, on the present rate base, that is allowing what for loading?

A 9 cents for trucks, it would allow only 2 cents in this case because the 15 cents is the regular pipeline rate.

Q And yet you say that 2 cents is all right for the waggon, the tank car?

A Yes.

Q And you do think, don't you, that the tank trucks should pay something more?

A Should pay a little more but if the conditions are such that if you charge more they do not come, then they do not come.

Q Well of course you do not assume now that we will not increase the rate or reduce it as the case may be, so you cannot work on that very far, what is this particular service worth?

A I would estimate that everything else, having in mind all the operation, the nature of it, the cost of performing that service.

Q Yes?

A That----

Q And the capital which must be invested to perform it of course?

A Yes, the possibilities are,without going into figures, my best judgment would be that it would require at least 7½ cents a barrel. I am taking that into consideration, I am setting that figure because as Mr. Coultis has pointed out in the Winter there is not very much movement; at certain times of the year there is a lot of movement; yet you must be prepared to supply the service at all times and

while it is no doubt the intention of the Royalite to restrict delivery to 8 hours a day so as to reduce the expense, yet there is expense and if the volume, now that would be, I want to qualify that 7½ cents, that would be at the start when there is a comparatively small movement but as the movement increases, which in my mind will increase, why then of course that can be reduced because the cost will come down in proportion.

Q MAJOR LIPSETT: You think that, then, should be an extra, added on to the rate; I rather gathered your view was that that might prevent the traffic from passing at all, or do you think it should be absorbed by the whole body?

A 7½ cents a barrel today will eliminate that traffic but whether the rate should include delivery to trucks or not I am not, I have not given it any thought, I do not think I would be justified in expressing any opinion.

Q THE CHAIRMAN: Do you think a refinery down in Winnipeg should be asked to pay for truck loading up here?

A No; now there is an aspect there, Mr. Chairman, which probably will qualify that; we are now dealing with transportation as transportation divorced from the question of production but unfortunately the effect cannot be divorced; the man producing crude in Turner Valley, whether it is the Royalite or whether it is the Lion or whether it is anyone else, is in this difficulty under present conditions to find a market for his crude, hoping that when conditions are changed he may be able to go out and get more markets and supply it with his own crude; in other words, no one has lost the hope that they can go out and with their own efforts develop more markets for crude and not have to divide them up with anyone else, so in spite of present conditions every-

one is striving to get the additional market direct, so that when anyone comes to me,- not the Royalite because they are in a different class, but to any independents to buy crude, if there are impediments in the way, such as extra charges, the custom is to absorb that, for the producer to absorb that, so as to equalize the conditions to the purchaser with the major companies. It is understandable because if you did not, the Imperial will sell the crude, and in my case they are at an advantage, so it is pretty difficult just to treat it as a distinct operation when in the minds of the refiner that buys the crude he is concerned only with what it costs laid down, the intermediate charges usually he is not concerned with and in fact, to use the usual language which is used, and I have dealt with a number of them "what is it going to cost me at my refinery in tank cars" and he compares that price with what anybody else would sell it to him for, the Imperial or anyone else, so if there are any charges, whether they are fair or unfair, if they can be performed for more money than we can charge or for less money, we have to look at the whole operation as one and sell our goods in competition with the other fellow, so that I do not know, I hope I have made that point clear that, whether it should be included in the rate or not is really beside the point because from the tank car loading view point or from the truck loading view point, after all the different purchasers will go to the different sellers and find out what they can do and they will take into consideration the existing factors, no matter what they are.

Q Yes, you always have to do the best you can about buying oil as cheaply as you can and selling it as dearly as you can I suppose but we are trying to arrive at what is just, if it is

desirable to have one rate, is it just that we should, having regard to the interests of everybody concerned?

A It is a question of policy, Mr. Chairman, it is just at 7½ cents if it cost 7½ cents to produce that service; on the other hand it might be good policy to charge only 5 cents and have the industry or the producers of the pipeline absorb the rest so it is a matter of policy.

Q Well now how can it be a matter of policy, I mean, as to what the rate will be and that of course is something that we shall probably have to deal with?

A Yes.

Q But regardless of what the rate is, I am just thinking out loud now?

A Yes.

Q Without having come to any final opinion about it, regardless of what the rate may be for loading tank trucks, what bothers me is, should the man who is buying oil in Winnipeg have the price he must pay effected by the pipeline charge which takes in a service that he gets no benefit from whatever?

A No direct benefit.

Q No direct benefit?

A If we take----

Q You say that is looking at it too narrowly?

A Too narrowly.

Q That if they in time build up a big enough trucking business, truck waggon business, that it will increase the throughput and will lead some other body to lower the rate?

A Yes, and not only that but as I have pointed out already, the trucks are the only means or were the only means in

Turner Valley, in the development of Turner Valley, of marketing the products and as a direct result of the encouraging of truck traffic and small refineries, it will be the means of continuing or extending the reserves of crude, so that everyone in the industry in Western Canada will indirectly benefit and when we take into consideration the loss, if any, because we have not, we are only estimating cost, that will result between a rate of 5 cents we will say and 7½ cents, if they amount to a thousand dollars or less, if you take them and compare them to the total operating costs, they will be reflected in such a small way that they will not effect any one user of the pipeline to any extent.

Q And in the result it is your opinion that any charge in respect of tank trucks should be put in the rate?

A Should be.

Q Put in the general rate, one general rate?

A Well that depends again if the Commission sees fit to include the tank cars in the general rate.

Q Quite?

A It might be as well to include the tank trucks.

Q You have already expressed the view that the tank cars should be?

A Yes, and I think the tank trucks, if you take everything which I have dealt with into consideration it would be justified to include the loading of tank trucks too in the rate.

Q MAJOR LIPSETT: Mr. Plotkins, in your own case, I remember, I think you gave evidence about the time that you took your oil by truck?

A Yes.

Q Previous to getting the pipeline connection?

A That is right.

Q And I think at that time if my recollection is correct, you said you got that just for the pipeline rate, without any extra loading charge for your trucks at that time?

A That is correct, sir.

Q Were there any special circumstances why you should have got that free at that time or was it just the same principle, that you would have gone to Turner Valley by truck if you had not got that concession?

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A I am just trying to recall the circumstances. It must have been something unusual. Usually the Imperial do not give me anything for nothing.

Q It is the only instance I can remember in the evidence of the delivery to trucks having been done free.

A It was the result, if I remember correctly, of unusual circumstances. But at the time there was no mention made by Royalite or Imperial that I would be called upon to pay any extra charge.

Q You just paid the pipeline rate?

A The straight field price plus the pipeline charges.

Q Were there loading facilities at that time for loading to trucks?

A Well, I did not see them myself. But there must have been. If I remember right, I sent our transportation manager over there and the Imperial provided the loading, some method of loading.

THE CHAIRMAN: Mr. Moore discussed it this morning. Is it crude you are speaking of?

A Yes, crude.

Q MR. FRAWLEY: Mr. Plotkins, I want to be clear. Do you think that the 2 cent rate is all right and it is all inclusive. You have in mind your own loading cost and the 2½ cents you pay the Texas Company in Montana?

A Yes, not the Texas Company, but its subsidiary, the International.

Q Yes, the International?

A Or the Illinois Pipeline, whatever it is.

Q That 2 cents then, you think, is all right, and that includes or that should take care of any necessary storage?

A Yes, because, you see, the average refinery, if I were called upon to load tank cars I have got to store it, you have got the crude and if anything it lowers my losses because it increases my volume through the tanks.

Q Now, I want to be clear, you have in mind that it takes care of any necessary tankage?

A Yes. There is only one phase there, if it is divorced from the pipeline, in other words, if it is a separate company that loads, what I mean is by a separate company, not the Imperial and not the Royalite, but if it were some unconnected company, the situation would be changed. Because when it comes to the Royalite and the Imperial it makes no difference whether Mr. Moore says he loses one-half of 1%, the fact is the two companies together have 1% handling allowance, and if that 1% will cover both operations there is no loss. But if I was called upon as a separate company to do the loading I would have to take into consideration other factors, and one of them is bottoms. In my tanks as the pipeline fills it up from day to day there are accumulations there, what we call bottom settlings, and the result is in time we have to empty it and throw that out, and that is a loss. That is one place we would lose. The next place would be in evaporation and handling, and possibly, although the matter of gravity in my experience has been very slight, it is true that at certain seasons of the year

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Turner Valley crude is quite wild. Now, there might be conceivably some loss. But the pipeline at the present time has an allowance to cover it. So there again there would be another set of costs that at the present time do not occur to the two companies if we consider them as one, that is the Imperial and the Royalite.

Q So far as my questions are concerned, that is the way I am considering them. But I want to be clear what you mean when you tell the Commission you think 2 cents is a fair rate. You mean to the public?

A To the public, yes.

Q You do not mean to qualify it, as Mr. Nolan qualified it yesterday, that that is from the Imperial to the Royalite and with pluses in between the Royalite and the public?

A No, I do not see any necessity.

Q Now, just to be clear about that. Mr. Nolan delivers from the Imperial to the Royalite and he called our attention to the fact that the Royalite pays that charge but it would have to add something to the consumers for the loss of operating that loading, which he said would be from one-half to three-quarters of a cent per barrel, and then there would have to be something charged to pay for the rental paid by the Royalite. I want to be clear that you are saying to the Commission to-day that 2 cents is a fair rate, that is as far as you are concerned, a fair rate which the Imperial will charge to the public?

A To the public, yes. It should be all inclusive,

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because it is self-evident from the remarks you have made if the Imperial is going to charge the Royalite, which already has been credited with the necessary 1% to take care of these losses, that it would be a double charge.

Q That is what I want to call your attention to. Do you relate the 1 cent deduction which the Royalite makes from the purchasers to cover the 1% which is called pipeline loss adjustment account, or something of that sort, that that takes care of the same thing which Mr. Nolan indicated Royalite would desire to charge in addition to the 2 cent rate?

A It does in the case of the Illinois pipeline when they ship for us, so I do not see why it should not either.

Q The next thing is the rental. Do you say that as far as you are concerned that 2 cents would be sufficient to include any necessary tankage storage?

A Tankage?

Q Storage incidental to delivery?

A Oh, yes.

Q Now, to be clear, what you now submit to the Commission is that there is one pipeline rate which takes it through the gathering system, through the trunkline and then through service lines into the refineries, yours, B. A, and Imperial's, or through storage, terminal delivery storage and through racks and spouts into tank cars?

A Yes.

Q And thirdly into tank trucks?

A Yes.

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Q One rate to be paid to the Royalite-Imperial combined will take care of all these three kinds of service?

A That is correct.

Q You appreciate, of course, that being so and the Imperial having been paid to do the loading into tank cars and into tank trucks, they would conceivably have all the business of loading tank cars and tank trucks?

A Having been paid, I do not understand.

Q Well, having been paid that in the rate. They are paid in the rate.

A Oh, yes, I see. Well, of course, I understand that.

Q You would not do any loading, but whatever sacrifice there is on your part or Mr. Harvie's part, that is all for the general good, I take it?

A Yes, I see your point. Well, I have taken that into consideration and in general it will benefit us indirectly more than any particular disadvantage.

Q I did not suppose you were overlooking that?

A No.

Q That should be,however, very clear that the Imperial will now, having been paid for it they will do it just like they transport it by the trunk pipeline?

A Yes.

Q They will do the loading just as the Royalite is going to do all the transporting by pipeline?

A Yes.

Q That is as we see it at the moment, in any event, unless there is another one built. So they are going to do all the loading into tank cars and tank trucks

at this fixed rate, of course?

A Yes, certainly.

Q MR. COMMISSIONER LIPSETT: I suppose the way they would work it, if that were the principle adopted, would be you would ask for so many hundred barrels for your refinery tank and so many hundred barrels to be put in tank cars on the railway?

A Yes, that is the way we are doing now. At least we have done.

Q MR. FRAWLEY: Let us follow that up. Suppose you had, as apparently you had last year, some customers in Saskatchewan that wanted to do business through you?

A Yes.

Q You would be selling them crude you had under contract?

A Yes.

Q I want to see how it would work out, what would happen. The company at Kamsack, for instance, would want some tank cars of oil. They would want to buy it from you?

A Yes.

Q What would be the mechanics of the operation, so I will understand?

A What they would be to-day?

Q No, under this agrangement you have just agreed to.

A Under this arrangement where the pipeline delivered into tank cars?

Q The one all inclusive rate?

A What we do is, we have a credit memo from the pipeline telling us periodically what we have in the pipeline in the form of crude, that they have taken delivery of from our well or wells. We draw from that crude.

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Now, we can place an order by 'phone, is the way it is done, and say we want so many barrels into our refinery and we want a tank car that is on the way that will reach the refinery, the Imperial Oil refinery, to-morrow at noon, loaded with crude, and with so many barrels, giving them the order and all the rest. The Imperial or the Royalite, whichever it is, will load that tank car. We will do the billing direct to the refinery that we sell to and we will pay the Royalite in our bills for the pipeline charges, which will include loading. That is the mechanics. That it will have one advantage. It will put all the refineries and all the producers on an equal basis, for this reason, that if I am called upon to load tank cars out of crude that is received at my refinery then I would be called upon to take the loss in handling, the bottoms, etc., and the actual cost of loading. Whereas, on the other hand, it will be done for all the independents and all the refineries at the one point.

Q You see advantages in this arrangement and you see no important disadvantages?

A There is one disadvantage, but I think the advantages offset that.

Q Mr. Plotkins, if we were only concerned, assume with me for the moment we are only concerned with supplying sufficient terminal storage to take care of deliveries to tank cars and tank trucks. Assume that with me, whether I am right or wrong about that. How much storage should Imperial or should the Royalite-Imperial Company keep, maintain and operate?

A Just for loading tank cars?

Q And tank trucks?

A Well, you can take the peak demand and multiply it by 15 days, and I think that will be the answer, because 15 days' supply is about a reasonable safety point for loading at this end.

Q Then I will tell you what that is. That will be about 21,000 barrels storage.

A That is the peak demand?

Q Mr. Moore tells us 7 cars was the peak demand for people other than----

A Other than the Imperial.

Q Yes, oh quite?

A Well, I do not know. Well, that is it, whatever it is, whether it is for the Imperial or anyone else.

Q 15 times 7 times 240. It would average about 21,000 barrels?

A As Mr. Moore explained, you could not fill it up so you would allow another 20% more.

Q Say 25,000 barrels then?

A Yes.

Q 25,000 barrels will take care of the storage necessarily indidental to people who desire to have tank cars filled and who cannot, as you pointed out a moment ago, go in and fill their own?

A That is right.

Q There is a distinction in those two classes of the public, the Imperial and the independent refineries?

A In Calgary?

Q In Calgary, yes?

A That is so, yes.

Q That is the reason I am not putting in the Imperial. They take their own operation at their own expense?

A Yes.

Q You said in the opening of your remarks this afternoon about 120,000 barrels storage was not too much, and, perhaps, not enough. That capacity, of course, has to do with the different operation to the one I am putting to you?

A You see, I have this in mind, if there is a breakdown or any other reason the Imperial finds no more crude going into its storage facilities, and I am dependent on the Imperial, well now my past experience tells me if there is 15 days' supply on hand, I might continue to get supplies for two or three days and then the Imperial will say "Well, we are very sorry but we cannot load your cars and we cannot deliver your oil". So that to prevent any situation such as that arising and to furnish absolutely no excuse for continuous operation I deemed it advisable to have sufficient storage to guarantee such contingency. I am looking at it from the entire industry and not from a selfish standpoint.

Q Your suggestion was 120,000 barrels of storage was certainly - well, my note is not enough - but certainly not too much for the pipeline company?

THE CHAIRMAN: He preferred to make it 200,000.

Q MR. FRAWLEY: Yes, so let us put it there. You preferred to make it 200,000 for the

pipeline company to have?

A Yes, working storage.

Q Working storage, as you call it?

A Yes.

Q I first put it to you, let us take it in stages, that is contemplating a different situation than the one I put to you a moment ago, to simply have enough storage to take care of deliveries to independent refineries?

A That is correct. It is different.

Q Is it not really looking to the pipeline company to do some warehousing for you?

A No, all I want the pipeline company to do, keeping in mind it is also connected with the Imperial Oil, who is a competitor of ours, is to find no conditions and create no conditions that will give them an opportunity to turn us down for our requirements.

Q Yes?

A That is all just a cold-blooded business.

Q Without being familiar with the intricacies of these operations as you are, it runs in my mind that you are looking at them that they are something more than a transporter, a gatherer or transporter or deliverer of oil, but as a warehouser of oil for you?

A No, not as a warehouser. The only reason I make that statement is, as I have explained before, in my mind I cannot disassociate the Imperial from the Royalite, or their other connections. The connections to Royalite are not founded on a purely transportation basis.

Q THE CHAIRMAN: Mr. Frawley assumes this, you need extra tanks because there might be some trouble somewhere?

A Yes.

Q As I appreciate what counsel is saying it is why should not you have these extra tanks over in your own yard at your expense? One can see it would be an advantage to you financially to have someone else handle them for you ?

A Yes, from that standpoint.

Q Leaving that aside, you are not speaking now as a person who is bargaining, but as a witness?

A Yes.

Q What is the answer to counsel that as far as this emergency storage is concerned that it should be in the yards of the respective refineries and paid for by them?

A Yes, Mr. Chairman, I think that is quite right. I am sorry, my mind was on a different aspect. If we are going to put in our own lines to the trunkline we might just as well put in our storage to take caree of our own situation 100%.

Q I understood counsel was assuming you got the line to your own yard, for the purposes of this question

Q MR. FRAWLEY: Yes, I am assuming you are on a parity with the B. A. Oil Company being a refinery adjacent to the line and serviced by a service line?

A From that angle which I had overlooked I believe that is the situation. There is really no necessity for that pipeline as a pipeline and transportation agency

to provide storage except for the loading of tank cars and tank trucks.

Q Then we are down in the storage, as far as you are concerned, to somewhere around 25,000 barrels?

A Yes, whatever that figure is. When it comes to loading the Chairman made a remark a little while ago about trucks getting crude at the pipeline terminal. Now, there is a question of buying this crude. The pipeline may be ready to deliver it but the Imperial Oil may not be ready to sell it. So that again we cannot divorce the two functions when it comes to the small operator. As a result of that situation where it takes two weeks or two months or six months to get an answer whether they will supply crude or not, you will find for practical purposes the small independent refiner will go to the Valley or go somewhere else. That is based on my own experience and on the experience of others and I do not believe it is exaggerated. So that that is an angle from the tank truck. Now, from the tank car there is also a problem.

THE CHAIRMAN: Apropos of that you have Mr. Nolan's statement, as counsel, speaking for his clients, that they are prepared to sell crude to anyone who wants it at the field price, plus transportation, plus handling charge. Now, if that statement is to be qualified in any way by saying that that handling charge must be the prevailing handling charge, of course, we would like to know it, Mr. Nolan. I mean we are accepting that statement because you make it, but what I want to get at is - I have not the

record in mind at the moment - whether you specifically named whatever the handling charge was or not I do not know.

MR. NOLAN: I did not, Sir.

THE CHAIRMAN: So that I take it your statement still stands, and that your clients are prepared to sell crude to those who may want it - not naphtha, but crude - to those who may want it at the field price plus the pipeline rate, plus a handling charge?

MR. NOLAN: So far as I know they are still prepared to do that. I have not heard anything from them about it since I made the statement to the Commission.

MR. PLOTKINS: May I ask, Mr. Chairman, what this handling charge is?

THE CHAIRMAN: I take that to be, after all, Mr. Nolan was addressing the Commission that will be concerned with handling charges, that it would be whatever handling charge might be determined upon. Not the handling charge that you might from day to day or time to time fix. I was under such an impression that you wanted us to think that. I do not remember exactly what you said. I am not trying to put any words in your mouth but I would like to be clear on it now if I can be.

MR. NOLAN: I cannot say anything further than I said then. I said that on instructions. I said the transportation charge. I did not even mention the rate. And the handling charge. And the

handling charge, I think it was.

THE CHAIRMAN: Yes. Well, may we ask, Mr. Nolan, if it is your understanding? After all, I am quite clear you have no desire that we should be led astray over words.

MR. NOLAN: You have not been, Sir, as far as I know.

THE CHAIRMAN: We may be led astray but not purposely by you. I have no doubt. We want to be clear we are not led astray through our own or anyone else's inadvertence. Is it your impression by that we were to get the impression that it was any handling charge that the Imperial or the Royalite or any of the companies with which you are concerned may from time to time choose to fix, or the handling charge that was determined upon by a body set up for the purpose of considering that with other matters?

MR. NOLAN: You see, at the time we made that statement we were not anticipating any of the assets of the Imperial Oil might be made into a public utility. At that time it was, you might say, a private enterprise. I think, to be quite fair to the Commission, I should come back before you, whenever that is, to-morrow or Monday, and reiterate my position in that, because I would not like there to be any misunderstanding.

THE CHAIRMAN: I am quite sure you would not. Perhaps, if you would, Mr. Nolan. I would like it to be perfectly clear because it may be of some importance, if your companies were to take

up the position that " We have contracted the whole Valley, more or less, and we will sell to nobody," it has a bearing, as you will see. If, on the other hand, they said "Well, we certainly are not taking up that position and we will sell to those who pay us" ----

MR. NOLAN: From my point of view the situation has changed in view of the interim report and the legislation that has been passed since that time. I think it is fair to me in my position to allow me to again come before the Commission.

THE CHAIRMAN: I think so, Mr. Nolan. If there is any question at all you should be quite clear and through you we should be quite clear on where your principals stand.

MR. NOLAN: At the time it was not made with any idea of the tongue in the cheek or anything like that.

THE CHAIRMAN: No, I have no doubt about that.

MR. COMMISSIONER LIPSETT: If you would like to have the reference to where you said that it is Volume 40, pages 4964-5.

MR. NOLAN: Thank you very much, because then I can refer them to the page and Volume.

MR. COMMISSIONER LIPSETT: I think, Mr. Harvie, on page 5028 of the same Volume, you stated the position of the British American. I just happen to have that.

MR. FRAWLEY: Are you through, Mr. Plotkins?

MR. PLOTKINS: I see it is almost four

o'clock and I have one request to make. I do not know if it is the proper time, so that counsel can be given time, if the Commission decides my qrequest is reasonable-----

MR. FRAWLEY: May I interrupt? I have a favour to ask of the Commission. I have Mr. Peaker of the Anglo-Canadian here now, I think three full days,waiting to give some evidence here. I am sure he will be very short.

THE CHAIRMAN: If Mr. Peaker had been here at two o'clock to-day he would have been heard.

MR. PLOTKINS: I am not going to finish this. I have a little ground to cover and I figured it was better to make that statement now in connection with the cost of production. I deem it necessary in the light of the knowledge that I have of the circumstances that exist in Turner Valley to bring out the facts that actually determine the cost, that we have Mr. Bimmell of, I do not know what his capacity is and I do not know who he even works for. I asked Mr. Burns and he was not able to tell me. Mr. Bimmell plays a most important role in the Turner Valley situation here, so that we can find out what his duties are, and who he works for. I might clarify it to this extent-----

THE CHAIRMAN: What does he do?

A He is the confidential agent, as I understand----

MR. FRAWLEY: Let me explain. You want to know who Mr. Bimmell is?

A Well, I am not interested in who he is. I know he exists.

Q Mr. Nolan can tell you just exactly what Mr, Bimmell is

and all about him. Do you particularly want him as a witness?

A I want him as a witness. I am not interested in who he is except to the extent to find out what his relations are.

MR. NOLAN: I will have before this Commission those witnesses whom it is directed to me by either the Commission counsel or the Commission, should be brought here. Beyond that I do not propose to go.

MR. PLOTKINS: I am just making a request.

MR. NOLAN: And I am telling you the answer to it.

MR. PLOTKINS: If the Commission wants me to elaborate on that I am prepared to elaborate.

MR. FRAWLEY: I think the simple thing is for Mr. Plotkins to endeavour to satisfy me that Mr. Bimmell's presence here is necessary at this particular junction.

MR. NOLAN: Not before the Commission.

MR. FRAWLEY: Not here now, but in my office.

MR. PLOTKINS: No, Sir, I do not think that is practical, Mr. Frawley. You have already told me your views that due to money considerations the Government may not see fit to prolong this Inquiry and if that is a consideration I do not think it has any weight.

MR. FRAWLEY: Oh, no, no.

THE CHAIRMAN: Well, so far as this

particular witness is concerned, proposed witness, you show to Mr. Frawley that his evidence is relevant to the Inquiry.

MR. PLOTKINS: I am prepared to do that.

THE CHAIRMAN: If you want him at this particular time on this particular phase of it and satisfy Mr. Frawley about that, there will be no difficulty in the witness being here. On the other hand, you understand, aside from any views Mr. Frawley may have about the Government money and expenditures, we are here just to stick strictly to our last, the subject of this Inquiry. If it is a matter of finding out what a competitor's employees are doing, we do not care.

MR. PLOTKINS: I realize that. I want to say this to the Chairman, that I am not representing myself here only and from my own standpoint on a selfish basis. I am sincere, I think, in expressing the view that I am doing all that I can to bring to light the factors that do actually influence the items or the matters that you are trying to clarify. So that it is not with a view of bringing out what somebody else is doing or with any personal benefit, because, after all, I think that when I get through with this Inquiry I won't be any better off and probably be considerably worse off. But I deem it a matter of conscience to do what I can.

WILFRED LAURIER PEAKER,

having been duly sworn, testified as follows:-

Q MR. FRAWLEY: You are associated with Anglo-Canadian Oil Company?

A Yes.

Q In what capacity?

A Comptroller.

Q Can you tell us whether your Company is now shipping oil to its subsidiary in Brandon, known as Central Distributors Limited?

A We are not shipping directly on our own account.

Q How are shipments going forward?

A All of our production from the Valley is sold to the Royalite Oil Company and deliveries are taken in Calgary from the Imperial Oil for shipment to Brandon.

Q And last year you had the same arrangement?

A On all except one well.

Q And was there very much production from that one well?

A 20,000 barrels.

Q So with respect to the rest of it it went under the arrangememt you have just indicated?

A Yes.

Q There is an exhibit we have filed here, Number "182", and it shows Central Distributors Limited had shipped to it 97,922 barrels over the year, or an average daily number of barrels 268. That figure would be about right would it?

A To the best of my knowledge.

Q That arrangement is continuing this year in the manner you have indicated, by selling to the Royalite and buying back from the Imperial at Calgary, and shipping to your

Brandon Refinery?

A That is the present condition.

Q Can you speak as to the policy of your Company as to whether you foresee any departure from that?

A We have found it convenient to date to carry on on that basis, and until it proves inconvenient I believe we intend to continue.

Q Now that means there are certain loading facilities and loading charges incurred in getting your oil to Brandon?

A Yes.

Q You have been paying up to now to the Imperial for that 5 cents a barrel?

A We have.

Q And have you registered any complaint or negotiated with the Company to secure a reduction in the 5 cent rate?

A Not to my knowledge.

Q You have heard that the Company proposes that these facilities, as you know these loading facilities are owned and operated by the Imperial Oil?

A Yes.

Q As distinguished from the Royalite?

A Yes.

Q And you know the Imperial has offered to perform that service for the Royalite for 2 cents?

A I have heard that.

Q With the suggestion that the Royalite might find it necessary to add something further. What is your view about that? Does it appeal to you?

A Naturally it appeals to us.

Q If the rate was made available to your Company direct from Imperial that would appeal to you, I take it even more so?

W. L. Peaker.

A Quite.

Q If there were no additions to that, in other words?

A Yes.

Q What is your view as to whether or not it is practical and proper to include in the pipe line rate the loading charge to tank cars and to tank trucks and to make it all inclusive?

THE CHAIRMAN: Just before you go into that. He said he would rather pay 2 cents than 5 cents?

MR. FRAWLEY: Yes.

THE CHAIRMAN: What does he think about the 2 cents being fair and proper?

Q MR. FRAWLEY: Are you able to offer any view about that?

A We have only a little experience in our own loading and as I say we found it convenient to put all of our oil through the Royalite pipe line, and you can deduce from that that it ran very close to the 5 cent loading carge which we paid the Imperial.

Q Where was that loading?

A At Okotoks.

Q What did it consist of?

A It consisted of one 100 barrel tank, a platform, an electric motor for pumping the oil from either tank truck or storage tank into the tank cars.

Q Was it a very large operation? What was it in barrels or gallons?

A It had a capacity of being able to load 5 cars per day.

Q MR. COMMISSIONER LIPSETT: Did the freight rate from Okotoks to Brandon, in comparison with the freight rate from Calgary to Brandon, enter into it at all Mr. Peaker?

W. L. Peaker.

A In discontinuing the operation?

Q Yes?

A No. We found that the two compared very favourably. In fact the contract under which we supplied the oil to the refinery was that it was not to exceed the field price plus pipe line charges plus loading. And during the term that we operated our own loading platform we did not exceed that equivalent.

Q Do you know what the difference in the railway freight is?

A It is 1½ cents. 35 cents from Calgary and 36½ cents from Okotoks.

Q Is that per 100 pounds?

A That is per 100 pounds.

Q How much is that per barrel?

A 36½ cents is equivalent to $1.02 a barrel.

THE CHAIRMAN: What is that 36½ cents?

MR. FRAWLEY: 36½ cents per 100 equals $1.02 per barrel. 280 pounds in a barrel.

Q MR. COMMISSIONER LIPSETT: That is from Okotoks?

A That is from Okotoks, yes. On 35 cents it is equivalent to 98 cents per barrel.

Q MR. FRAWLEY: What is the 35 cents?

A That is from Calgary.

Q MR. COMMISSIONER LIPSETT: It is 4 cents cheaper by rail to send from.....

A From Calgary, yes. That is so far as freight is concerned.

Q If it cost you 1 cent to load at Okotoks it would be equivalent to paying 5 cents for loading at Calgary would it not?

A Pardon?

Q If you paid 5 cents for loading at Calgary, it would bring it to $1.03?

A Yes.

Q And if it cost you a cent to load it at Okotoks, that would be equivalent. In other words you could pay 4 cents for loading at Calgary and equal Okotoks if you got it loaded at Okotoks for nothing?

A Surely. Except the pipe line charges and the handling charge were compensated for in the price we paid to the truckers, between Okotoks and Turner Valley, in that the controlling factor in these shipments was the trucking rate and we approached the truckers and told them that we must lay the crude down in Brandon at the same price that we could from Calgary, and they gave us a rate based on that proposition.

Q Did the truckers do the loading at Okotoks?

A Yes, although we had in attendance one man to supervise, gauge the tanks and generally carry out the checking operations.

Q Can you tell us at Okotoks how much was for trucking and how much for loading? That would be of some help to us?

A The operating costs of the platform are rather misleading, in that it did not handle up to its capacity. Towards the latter part of its operation it was carried on as a standby, while no shipments were being made. Due to these factors the loading operation charge ran up to about 4½ cents per barrel on the amount handed during the year.

Q THE CHAIRMAN: You say it is for that reason that gave an obviously false picture?

A Yes.

Q MR. FRAWLEY: What storage did you have

incidental to that loading operation?

A 100 barrels.

Q You had a steel tank of 100 barrels?

A Yes.

Q You found that ample to look after loading up to 5 cars a day?

A Yes. The loading was done to the greater extent direct from the tank truck.

Q THE CHAIRMAN: Had you previously had any pipe line connection between your wells and the pipe line main stations?

A Not in this particular well.

Q You trucked from the well to Okotoks?

A Direct from the well to Okotoks.

Q I suppose as part of this arrangement with the Imperial and Royalite you got a pipe line connection to your well?

A The pipe line company and the Imperial Company were not taken into consideration when we discontinued that operation. It was more a matter of convenience.

Q But before you commenced the new operation you had to get a pipe line connection to the well I suppose?

A Yes, quite.

Q You never trucked from the well to the Royalite plant?

A Oh no, by no means.

Q BY MR.NOLAN: Do I understand you to say that the oil was taken by truck from the well to Okotoks?

A Yes, direct from the well.

Q By tank truck?

A Yes.

Q And loaded from tank truck into tank car at Okotoks?

A Yes.

Q And that because some days you were not working and the plant was standing idle, or your facilities at Okotoks, that added to the cost to the extent that it approached 5 cents?

A Yes.

Q Do you mean it is because it does not work every day that the cost is so greet?

A Yes, that is the major factor in it. In that Spy Hill well, which was the well supplying the crude, it produced only in the beighbourhood of 70 barrels a day. Storage was accumulated at the field, and when a sufficient supply was on hand the truckers were called in and it was transported to Okotoks. At 70 barrels a day you can see it would not be possible to load even continually one car per day.

Q It is because of the fact that the operation was not continuous that the operating costs were high?

A Yes, and towards the latter part of the operation the employee at Okotoks was maintained as watchman although actually no oil was going over the platform.

Q He was to take care of the equipment that was there?

A Yes, quite.

Q MR. PLOTKINS: Was there any particular reason why you did not get a direct pipe line connection at the time you began the shipments?

A No, it was a matter of our own choice that we kept the well out of contract with the Royalite Oil Company.

Q True. Then was that the reason why the pipe line would not take care of your deliveries into tank cars?

A No. There was never any difficulty of that nature.

W. L. Peaker.

Q MR.HARVIE: I think you were asked a question about whether the loading charge should be icnluded in the rate, and the Chairman did ask you as to your view of whether the loading charge should be included in the regular pipe line rate?

A I think it would be preferable to have it a separate charge.

Q MR. FRAWLEY: Why? Would you mind saying why? From the standpoint of your Company what difference does it make?

A Well, in saying that I am more or less expressing a personal opinion. So far as the Company is concerned I do not believe that it has any particular views on the matter.

Q Well then, we will let you take the stand for a moment. Why do you see any objection, or do you see any preference in the two rates being separated?

A It would seem that the outside refinery, that is outside of Calgary, is obtaining an additional service there, which the refineries in Calgary should not be asked to participate in.

Q MR.HARVIE: There is just one other question and that is, under the system you adopted at Okotoks, have you checked the losses at that point?

A Yes.

Q You were able to were you?

A We were able to check the losses but we suffered none, due to the arrangement with the truckers, whereby they delivered at Okotoks the same amount as they took from the well. They stood the loss.

Q There might have been a loss but you do not know how much

W. L. Peaker.

that would be?

A I can say it did not exceed 1%.

MR. PLOTKINS: I did not hear. Did you say it exceeded 1%?

A No, it did not exceed 1%.

MR. FRAWLEY: That is all thanks.

(At this stage the Hearing was adjourned until 10.30 A.M. May 8th, 1939).

.....
.....

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 8th, 1939

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WITNESSES:

E X H I B I T S

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10:30 A. M. Session.
8th May, 1939.

MR. FRAWLEY: I will call Mr. Burns.

MR. PLOTKINS: Is Mr. Burns going to speak on the production costs?

MR. FRAWLEY: Yes.

MR. PLOTKINS: Before we go on to that I would like to point out one subject that I think is relevant or important in connection with the delivery of crude.

MR. FRAWLEY: We are not finished with that.

MR. PLOTKINS: You are not finished?

MR. FRAWLEY: Oh, no.

.....

THOMAS E. BURNS, having been recalled, examined by Mr. Frawley, said:

Q Mr. Burns, you have been asked this morning to come to tell us, give us the evidence of the Royalite Oil Company with regard to its production costs in Turner Valley, would you file such statements as you have and make such explanation of them as you care to on the question of cost of producing crude in Turner Valley?

A Yes.

Q I take it, by the way, your company is not producing crude petroleum in other part of Alberta except Turner Valley?

A That is correct, and I have prepared here a statement of the cost of producing crude oil from Sterling Pacific wells Nos. 3, 4, 5 and 6, from the time those wells came

into production to the 31st of March, 1939. I have those, copies of those statements.

Q Are they signed documents?

A No, they are not, they are just the statements.

(STATEMENT PRODUCED HERE MARKED EXHIBIT NO. "246".)

Q Now, before you proceed, are these the only, you have selected these wells and you are mak ng submissions with respect to the costs of those wells, that is the total of your submissiondo I understand, Mr. Burns?

A That is correct, insofar as the Royalite is concerned; there are, of course, other wells owned by Royalite producing crude oil but many of the Royalite Company's wells are jointly owned by other parties; these wells are entirely owned by Royalite.

Q And more than that, I presume, there are other wells wholly owned by Royalite producing?

A No, producing crude oil at the present time there are only two others, Royalite 29 and 35, and 35 has just recently come intp production and the costs were not complete; Royalite 35 just recently came into production.

Q THE CHAIRMAN: And Royalite 29?

A It is located on the same quarter section as 35 and it was, I considered that the development of that quarter section had not been completed to the point of preparing adequate costs statements.

Q MR. FRAWLEY: In any event, the wells you have selected are the five Sterling Pacific wells?

A Four.

Q Pardon me, these four Sterling Pacific wells were selected, I presume, as being, so far as your company

is concerned, sufficiently indicative of the costs of production to warrant their submission to the Commission?

A That is correct.

Q Some of the wells are better than others, I take it?

A That is true.

Q Very well then, Mr. Burns, would you mind running over the statement and deal with the pertinent parts of it to explain them correctly?

A Yes, at the outset I should like to say too that, to corroborate, that it is extremely difficult to arrive at what you might term the costs of producing crude oil, and those reasons I will qualify as I go along to explain my statement.

Q All right?

A The dates of drilling, the dates of completion of the wells, I suppose are set out there in the statement, do you want me to discuss those?

A Well, perhaps, just to show the difference in their productivity, these are the barrels, I presume?

A That is correct.

Q The barrels of production?

A Yes.

Q You might just read into the record what well No. 3 produced, and so on?

A Well No. 3, drilling commenced on the 7th of May, 1936, was completed on the first of December, 1936, and from the inception of production to the 31st of March, 1939, it has produced 81,087 barrels of crude oil. Well No. 4, the drilling was commenced on the 6th of August, 1936, and was completed on the 21st of March, 1937,

and has produced to date 479,052 barrels of crude oil.

Well No. 5 was commenced on the 5th of March, 1937, was completed on the 31st of July, 1937, and until the 31st of March, 1939, has produced 340,778 barrels.

Well No. 6 was commenced on the 16th of June, 1937, was completed on the 15th of December, 1937, and until the 31st of March, 1939, it had produced 246,446 barrels of crude oil;

The total production obtained from those four wells to March 31st, 1939, was 1,147,363 barrels of crude oil.

Now, continuing to describe the statement, I have shown the cost of lease at an estimated figure of $243,000.00; this lease was purchased from the Sterling Pacific Oil Company Limited in June of 1935, I think it was, yes, and at the time a value in excess of $413,000.00 was set upon the whole of the section; our Geological Department has estimated that on that section there are 243 acres located on potential crude oil producing land; it was difficult to arrive at an equitable figure as to the value to be placed upon this lease so that in evaluating it I have taken $1,000.00 an acre for the reason that the Royalite Oil Company has itself purchased 40 acres adjacent to this property and paid that price for it, that is about two years ago, it purchased legal subdivision 16 of section 32, township 18, range 2, West of the 5th Meridian, a Crown lease, for the sum of $40,000.00.

The surface rights have

been put in at their cost and with regard to those which are rented it is considered that their use will be required for a period of ten years to produce the oil from the sub-soil.

Q THE CHAIRMAN: Has your Geological Department estimated, Mr. Burns, as to how many more wells will be on this land that you value at a million, at a thousand an acre?

A Yes, at the present time it is not anticipated that there will be any other wells there, but there are locations and all I can say at this time is that there is no further drilling contract.

Q Because of it being thought that it would not be possible to drill, that you would not find oil, or is it that they do not wish to drill?

A No, the Royalite Company has many other lands upon which they might drill in preference to that.

Q What I am getting at, when you charge against these four wells, $243,000.00, it would not be a fair charge, is it, if there is oil land there capable of producing 10 more wells, let us say, for example?

A Yes, I would say that is a fair price for the reason that I have stated, that we paid on the basis of $1,000.00 an acre for the area contiguous to the land we are now discussing.

Q You will, no doubt, develop it, as you go on with the statement, but is that whole $243,000.00 treated as being the capital investment with respect to those four wells?

A Four wells for the reason that there is no further drilling contemplated at this time.

Q MAJOR LIPSETT: That would be 60 acres for a well instead of the usual 40 acres?

Q THE CHAIRMAN: Yes, that is the point I am making.

A There is no immediate necessity for developing the property; Royalite has much other land which it might develop in preference to this, and I think.....

Q If it were profitable to put four more wells down it would affect the figure charged?

A That is true, it would affect the value placed upon the land but, of course, it would enhance the other development costs to a greater extent.

Q I just wanted to understand that.

Q MAJOR LIPSETT: Mr. Burns, you gave us the cost of the adjoining lease, but you give us for these 243 acres apparently an estimated value, can you give us what these 243 acres actually did cost?

A No, I cannot do that, for the reason that when we purchased them from the Sterling Pacific, we purchased the lease, we purchased two wells which had been drilled, two gas-cap wells, and we purchased in addition a 12½% royality in Sterling Royalties No. 1 well, which was also drilled in the same section, and I know of no method of equating those values. We gave-----

Q What was the consideration?

A The consideration was paid in shares, to the Sterling Pac Pacific Oil Company Limited we paid 37,000 shares of Royalite Oil Company's stock, there were other interests---

Q Just a moment, what date was that?

A That was in June, 1934.

Q What was the value of the Royalite's shares on that date?

A The value of the Royalite shares at market was between $18.00 and $20.00, according to a publication that I looked up, Hueston's Standard Publication, they were shown at that value, but the consideration shwon in the books of the company was at $12.00 a share for the reason that supplementary letters patent to the company issued by the Secretary of State for Canada stated that the shares shall not be issued at a consideration in excess of $12.00 a share, and that figure was used in this instance.

Q THE CHAIRMAN: That is the total consideration, Mr. Burns, given?

A No, there was, the North West Company Limited had a 40% interest in those lands and had the right to produce them and there were 24,000 shares issued to North West Company Limited at the same time or about the same time. Then the North West Company Limited also had a 10% royalty in the Sterling, gross royalty in the Sterling Royalties Limited No. 1 well, and that too was purchased for 3,450 shares, so that the total consideration given for the many assets, all the rights that the Sterling Pacific Company had to develop the property, including its two wells and its lease, all the rights that the North West Company had to develop the property and their interests in these two wells and all the rights that both companies had in the Sterling Pacific, Sterling Royalties Limited No. 1 well, were purchased at a total of 64,450 shares.

T. E. Burns.

Q MR. COMMISSIONER LIPSETT: Two producing wells, 12½% royalty?

A On two producing wells located in the gas-cap, as part of that section is located in what is known now as the gas-cap area, and we consider that 243 acres of it are located in the crude oil area. In discussing well costs it will be noted from the statement Sterling Pacific No. 3 was drilling for 189 days elapsed time. Its depth was 6,788 feet. Its cost was $157,344.14. Sterling Pacific No. 4 had an elapsed drilling time of 203 days; its depth is 7,184 feet; its cost was $158,274.85. Sterling Pacific No. 5 had an elapsed drilling time of only 139 days; its depth is 7,073 feet and its cost was $132,521.15. Sterling Pacific No. 6 was drilling for 139 days; its depth is 7,117 feet; its cost was $134,303.83. The total amount spent in drilling developments with respect to these four wells is $582,443.97. And I should clarify those figures by stating that Royalite is in a difficult position with respect to adequately charging its wells with the proper amount for the use of drilling equipment as compared to other companies and wells. The Royalite has several hundred thousand dollars invested in drilling equipment. Much of it is interchangeable and it is not uncommon for to begin a well with certain equipment which must later be changed. If repairs are necessary to a pump, it is not uncommon to set a new pump at the location and take the old one away to be repaired. Now in our machinery memorandum costing we use $155.00 a day for the use of the drilling plant, such as boilers and pumps and the rotary table, and all such equipment as is necessary to drill. That

is exclusive of the drill pipe. For the drill pipe we sometimes make an appraisal, taking what damage we consider it has suffered. Sometimes we use the Income Tax basis to make the allowance for depreciation on that. But I think you will see from the statement that the total costs are reasonable when compared to other wells drilling in the Turner Valley. Continuing then to producing wells equipment, it will be noted from the statement that those costs total $51,076.75, and that this is inclusive of tubing, well connections, production lines and tankage, separators, boilers - that is to say production boilers - and the boiler house at the central battery. Now in this connection too I should say that Sterling Pacific wells Nos. 4, 5 and 6 are produced through a common battery. There are means there to obtain individual production of the well, but with a view to more efficient operation and reducing costs, those three wells are operated together. Labour costs are thus saved and many other items which go into operation. Sterling Pacific No. 3 well was for a time operated by itself, but for more than a year now its separator and production equipment have been moved to a location adjacent to the No. 2 absorption plant and the crew from the absorption plant look after the operation of the well in addition to their other duties. For that reason operating costs are considerably reduced over what they would be if individual operation was used at each one of those wells which we are now discussing. Continuing, I have put in here an item for gas lift equipment. I say it is anticipated that by 1940 gas lift equipment will be required for the operation

of these wells for a further two years, that is up until approximately 1942. We now have a Clarke kick-off unit. A kick-off unit is perhaps not too well described. What it is, it is a compressor, but that is the name that it is generally known by throughout the field. The Clarke kick-off unit now in service can be utilized as part of this installation and its cost was $15,785.00. We anticipate that two more similar units will be required. These similar units have not yet been purchased. There was a good deal of experimental pipe work and things in connection with this first unit which we do not anticipate having to incur again, and so we anticipate that the total cost of the gas lift equipment will be $39,485.00, and that the new units will perhaps be smaller. At any rate they will not cost as much as the first one. This provides then for two years at 15% per annum. Take 30% of $39,485.00 and project that for that period that we anticipate that these units will be in use. I then go on to pumping equipment and I might say that none of these wells are presently being pumped. I say it is anticipated that for the last six years of production Sterling Pacific wells Nos. 4, 5 and 6, it will be necessary to instal pumping units at each well, and the estimated cost for those pumping units is $15,000.00 per unit, or $45,000.00. We estimate those will be in service for 6 years at 15% per annum, which is the rate of depreciation allowed by the Dominion Income Tax Department, and we have an extension of $40,500.00 necessary for pumping equipment. Taxes and rentals are based on what we now know as being payable. Lease rentals, will, of cours remain as they are. There is nothing that we know that will cause them to increase. Taxes may or may not increase but

they are based on what we are presently paying. With regard to the operating expense figures of $217,066.70, we have considered the operating costs which have been incurred to date, and have made a calculation inclusive of the extra amounts which are likely to be necessary for gas-lift and pumping, and other indirect expenses, this is purely an estimate, $15,000.00 per year, applicable to that area. I have no basis really for putting it in at such a figure. $15,000.00 a year for 10 years. Total cost exclusive of Income Taxes are thus shown to be $1,320,010.92.

MR. COMMISSIONER LIPSETT: Is that $150,000.00, you say it is made up of 10 years at.....

A At $15,000.00 a year.

Q Is that on an acreage basis over the whole area?

A No, it is merely a guess. There is no basis at all. I do not know of any method that I could go about .....

Q How many acres does Royalite hold in that area?

A In the Turner Valley?

Q Yes?

A The Royalite has a total holding in excess of 10,000 acres. How much of that is on the gas-cap and how kuch in the crude oil area I could not say. I do not know whether any one knows. Each man, each geologist or field engineer may have an opinion on it but I have none.

Q This $150,000.00 figure, that is put in for indirect expenses on the basis of $15,000.00 a year?

A That is correct. In making our calculation for Dominion and Provincial Income Taxes we, of course, had to consider what oil would be worth. I have no idea. We used $1.20, I think principally because some of the other operators have

used an average value of $1.20. There is no real basis for that figure at all. It may be up. It may be down. But that is the way that we calculated future revenues to determine what the Income Taxes might be. Estimated recoverables as shown on the statement based on actual production to date in the four wells situated in this area, and estimate recoverables for the balance of the 10 years' life is shown to be 1,729,193 barrels. From that we have deducted the royalty payable to the Calgary & Edmonton Corporation of 12½%, the lease having been obtained from that Corporation. This deduction makes a net recoverable of oil of 1,513,044 barrels, and thus the cost of this net recoverable of oil is shown to be $1.187 per barrel.

Q MR. FRAWLEY: You have not endeavoured to estimate the revenues that you will get from the oil over the life of the wells?

A To estimate the revenue, no. It is purely a cost statement.

Q So I mean to say if we were anxious to get your view as to what extent the Company is going to profit, and if so how muc it would be difficult would it? It is not very satisfactory to multiply it all out at $1.20, is it?

A No. It is not very satisfactory because it is almost certain it will change at some time during the 10 years. When it will change or how much, or whether up or down, I of course cannot say.

Q As a matter of fact you have not endeavoured to express any of this revenue in cents per barrel because even since the wells came in the posted field price has changed, I suppose?

A The posted field price has changed since.....

Q Since the wells came in?

A Yes, since the wells came in. Or some of them. The last pric

change went into effect in January 1938, I believe.

Q So I am pointing out you could not even without some - oh well, yes you could of course tell us the revenue that has been received from those wells up to date?

A Oh yes. I have that too. No, I haven't that either.

Q Well, Mr. Burns, the field price has varied and you could not multiply your gross production of 1,147,000 barrels by.....

A By $1.20, no.

Q Of course not.

A No, that could not be done.

Q It does look of course, as though the operation of these wells will be a profitable operation, on this statement, doesn't it?

A Yes.

Q It will be a profitable operation, but you are not in a position to say with any accuracy to what extent it will be profitable, expressed in dollars?

A No, I could not say. That is a matter that depends upon.....

Q I think, Mr. Burns, to clear the record so there will be no question about it, I should show you Exhibits "83", "84", "85", "86" and "87", and ask you to say what you would like to say with respect to the cost of production in cents per barrel shown on one of the statements attached to each of these exhibits. You, perhaps, have not got to take all of them unless you want to. You could select one. These are the statements, for the record, that we have described as as the Jersey Statements.

THE CHAIRMAN: Is that all of them? I thought I saw one in our room?

MR. FRAWLEY: Exhibits "83" to "87" are the

complete list.

THE CHAIRMAN: All right, Mr.Frawley.

Q MR. FRAWLEY: You might first put on the record what the Jersey Statement shows, or one of them that you might select, as to cost of production during that particular year, and then say what you have to say about that figure, in the light of the evidence you have now given showing the cost of production from the Sterling Pacific at least as $1.01?

A For which year?

Q I do not care at all. I suppose you should take each of them to be right about it?

A Well I have here a statement for the year ending December 31st,1933.

Q That would be Exhibit "83" would it not?

A That is correct, Exhibit "83". This purports to show the cost of crude oil and naphthas, not specifically crude oil.

Q For the reason that at that time that is what your Company was producing, was naphthas, in 1933?

A That is correct. Yes. Perhaps I should repeat too that this statement is merely prepared for the purpose of evaluating inventories at the end of each fiscal year. These inventories being negligible it was never necessary to give a great deal of serious thought to making an actual evaluation of them. But for the year 1933 the cost of producing crude oils and naphthas is shown to be $1.30 per barrel. For the year 1934 the cost of producing crude oils and naphthas is shown to be $.83355 per barrel, roughly 83-1/3 cents. For the fiscal year ended 31st December, 1935, the cost of producing crude oils and napthas is shown to be $1.199 per barrel.

Q Yes?

A For the year ending 31st December, 1936 the cost of production of crude oil and naphtha-----

Q As shown?

A As shown in the statements.

Q In the Statement Exhibit "86"?

A Is shown to be $1.09995 per barrel.

Q THE CHAIRMAN: What year is that?

A 1936, sir.

Q Would you give me 1935 again, please?

A The statement shows the cost of $1.1999 per barrel, $1.1999 per barrel; for the year ending 31st December, 1937 the statement shows the cost of crude oil separately from crude naphtha, this cost is shown on the statement to be .8619 cents per barrel, roughly 86 cents a barrel.

Q That is the first time crude is separated, Mr. Burns?

A That is the first time, sir.

Q MAJOR LIPSETT: And the crude naphtha cost of production, if you have it there?

A The crude naphtha for the year 1937, it is shown to be on this statement $1.6756 per barrel or roughly $1.67½ per barrel in the year 1937.

Q MR. FRAWLEY: Now Mr. Burns, when you were on the stand before discussing these Jersey Statements, I recall you pointed out that there were certain infirmaties which had to be taken into account in dealing with these statements, will you just tell us again why the Commission might be, why certain considerations and qualifications have got to be, in your view, have got to be taken into account, in your opinion, in dealing with these statements, these Jersey statements?

A Well I should like to review just what I said then to complete

it if I can, you have not got them here.

Q You would like to review what you said at that time?

A Yes.

Q You have not the transcript here, have you?

A No.

Q I will be very glad to give you an opportunity of doing that, I thought you might point out now--you did say the purpose that they were made up for was to value the inventories but if I remember you went further and suggested there were certain items of cost not included?

A Yes, and certain other items.

MR. NOLAN: My memory is that there was an Exhibit prepared showing what was not in it.

A That is correct, there was a statement prepared.

Q MR. FRAWLEY: Perhaps you should have an opportunity of looking at that, it is on the record once of course but I thought at this time when you are now presenting more or less the company's considered submission as to what the cost of production on the Sterling Pacific at least was, namely $1.01 per barrel that, having been confronted with the Jersey Statements which show a cost of crude in 1937 of 86 cents, that perhaps you should be given an opportunity of explaining the relationship between those two statements, the one you have made this morning and the Jersey Statements?

Q THE CHAIRMAN: He certainly gave a list of the reasons why the Harrison-Smith statements for example should not be accepted?

A That is right.

Q And my memory is he did the same about this, is that correct, or is it not?

MAJOR LIPSETT: Mr. Frawley, I can give you some references, I am not sure I have them all, in Volume 16, Mr. Burns' testimony, at pages 2257 and 2258, and pages 2264 and 2265.

A Well in order at any rate that we may proceed, I will glance over these and one item that I recall was with respect to depletion; in the year 1937 there is shown as a cost here an item for depletion of $478,645.27.

Q Yes?

A That is the Dominion Income Tax allowance to the company for depletion, which has no relation to the physical depletion which the property suffered in the operation of the wells.

Q Now how do you deal with a similar item in your statement Exhibit "246"?

A We didn't take up depletion to the extent that we have a calculation showing the total recoverable.

Q I see?

MAJOR LIPSETT: What page is depletion on?

A It is with respect to 1937, it is on Exhibit "87-D".

THE CHAIRMAN: Mr. Frawley, while Mr. Burns is here, he has an intelligent knowledge of what he is doing and why, and I observe the other witnesses who have spoken as to production costs have also spoken of depletion. Now I am curious to ~~have your~~ views and if you think wise the views of the witness as to whether there should ever be depletion where there is a lease direct from the Crown and what right is there of depletion. It is a rental charge, certainly, for the right to win that which is covered by the lease but that which is depleted is the property of the King in the right of the Dominion or of the Province as the case may be and how does the person renting that get that into

his books?

Q MR. FRAWLEY: There is no remainder-man, there is one lease from the Crown?

THE CHAIRMAN: I was wondering about that, is he depleting something which belongs to somebody else and the only interest they ever had in it was the right to win it.

MR. FRAWLEY: Well that is certainly worth while thinking about.

Q MR. FRAWLEY: Mr. Burns, do you see any reason why you should properly take into account the depletion of the lease when you are not the owner of it, the depletion of the property when you are not the owner of it, merely a lessee?

A Yes, I believe that for accounting purposes it is necessary to consider the depletion of the asset.

THE CHAIRMAN: Yes, but this asset belongs to the Crown in the instance I have given.

Q MR. FRAWLEY: Are you getting back, do you set up depletion to get back anything more than the cost you have put into this by why of a lessee, as lessee, is that not the purpose of depletion?

Q THE CHAIRMAN: Your rental is an operating expense?

A The rental is an operating expense.

Q Then why do you deplete, we are assuming a case where you, to make it simple, we assume the case where you lease from the Government?

A Correct.

Q And that Government, you are really leasing it from His Majesty in the right of that particular Government?

A Yes.

Q Nothing is sold to you, you have not bought a single thing, you have bought a right to win the Petroleum and Natural Gas

and you do, over the period of years you are winning it, you are paying a rental which is an operating cost and when you are all through winning, you do not pay any more, your lease is at an end, by what right do you deplete that which you never owned?

MR. FRAWLEY: Now Mr. Chairman, I think----

THE CHAIRMAN: There may be a good answer.

MR. FRAWLEY: I think really if I may say so that there must be some misuse of the term "depletion". Your statement Exhibit "246", you show the cost of your lease at $243,000?

A Correct.

Q And you show the well cost at $582,000, just taking those two last?

A I believe that is right.

Q Do I understand what you call "depletion" is something you set up to enable you to recover those costs?

A Something which we set up to enable us to recover them.

Q Yes?

A No, when we set up depletion, although it does not appear in this statement, when we set it up as a calculation, to show extinguishment of the value of the lease.

Q Yes, if you do that then I think with respect there is certainly force in what the Chairman says, it does not belong to you but on the other hand if it is some method whereby you want to show how you were going to get back what you had in the lease, in somebody else's property, let us assume you paid in cash $243,000 for that lease and you had paid in cash $582,000 for the well cost, as I understand it, and as I am instructed, this is what you are trying to do, when you are talking about depletion, to recover the cost of the lease,

whether it be a Crown lease or a C. and E----

THE CHAIRMAN: What I put to the witness is a simple case, we will come to that other in a moment, but the simple case, you get the lease directly from the Crown and you do not pay a cent.

MR. FRAWLEY: No.

THE CHAIRMAN: You sign your name and you get a lease and you pay a rental and as I understand the witness, and as I understood some of the other witnesses too, it was all production costs, though none the less, as a matter of accounting and in fact they worked in a depletion charge and I wanted to know why, my view being at the moment, subject to corrections, that you cannot put in your books a depletion charge in respect of Crown property which you are only renting in order that you may win something because when it is all done the person who is out the oil is the Crown, not the Lessee, he has got everything he paid for, the right to take it out of the ground.

MR. FRAWLEY: As you say, Mr. Chairman, in this case we acquire nothing, nothing is acquired, it is only a right.

THE CHAIRMAN: Direct from the Crown.

MR. FRAWLEY: And it is surely a lease then, then there is no true use of a depletion charge.

THE CHAIRMAN: As I understand the witness he thinks there is and I would like him to elaborate upon that because I would like to get that clear. It may not prove important in connection with these wells but in dealing with production intelligently it may prove important before we are through.

A Well, dealing with the simple company. it would appear to me

sir, if this company obtained a lease to produce crude oil, it would set that lease up at some value in its books and each year, dependent upon the amount of withdrawal there should in good accounting practice, there should be some calculation made to determine how much that lease had been depleted.

Q THE CHAIRMAN: That value which is first fixed upon it?

A The value which is first fixed upon it and I think that is a real, tangible value to the owner.

Q Let us test that by an illustration and I am only seeking to do so for information and guidance, you understand, supposing you leased a house today, would you set up in your books the value of the house and when you got all through renting it, would you say "Now I have lost so much because this house has a less value owing to wear and tear and other conditions and usual things which usually depreciate a house", what is the condition?

A I would say under certain condition?

Q You rent my house now, remember it is my house still?

A Yes.

Q Are you going to deplete it?

A I am the company renting the house.

Q Yes, the same thing as an individual.

A It depends on what value that house is to me, if I can, I can hardly apply it to the question of depletion which is something applicable primarily to mines, oil wells and timber limits.

Q All right, you rent my farm and you are entitled to get the crops off it, as you rent an area of land, and you are en-

titled to get the oil under it, would you deplete that?

A No I would not.

Q MR. FRAWLEY: Mr. Burns, when your company leases a piece of oil bearing property from the Crown or anyone else, do they regard, do they, in their own mind, look upon that as though they have purhcased the oil underlying the lease?

A In many cases it is an actual purchase but then in the simple instance Mr. Justice McGillivray has just given I think it is the right to recover the sub-soil production.

Q True it is, that is exactly what it is, it is the right to recover?

A THE CHAIRMAN: Absolutely.

MR. FRAWLEY: But what I was wondering, if you do make a depletion charge, you must, in your books and in your minds, regard yourself as the owners of that oil and therefore as you waste it from year to year, you are wasting something which you originally owned in toto and then owned in decreasing amounts?

A Well however we might look at it ourselves, we might set up a value of the lease at its original cost, its original rental value or we might, that would depend upon the conditions under which the lease itself was obtained I think that the shareholder of the company, having regard to the fact that the company owned the lease in a proven area, would put a higher value upon his shares and the purchaser, the potential purchaser, would put a higher value if those leases were located in an area contiguous to the production of crude oil.

Q That is perhaps not what I have in mind, I am trying if I can to find some justification for thinking of depletion when primarily and strictly speaking, as the Chairman point out,

you are depleting someoody else's estate but I thought perhaps you regarded that only as a merely theoretical situation, when the Crown hands you a lease of a quarter section in Turner Valley, you have to all intents and purposes, if you complete all the requirements, and naturally you intend to do and are able to do it, you acquire the ownership of the oil, is there anything in that suggestion that you regard yourselves as the owners of that oil and therefore your estate or your property is being depleted, is that fair?

A I think that is correct, yes, we are the owners of that oil and as rental and Royalty, we pay what is agreed upon to pay.

Q Theoretically you know that lease might be cancelled on you tomorrow and you would not own anything at all perhaps, you are only a tenant and that is perhaps what is troubling the Chairman, you are really in Law only a tenant and you might have your right as tenant, upon proper notice being given of course, in 30 or 90 days' time, whatever the lease said, if you fail to do this and you failed to do that, your rights are at an end, I am just perhaps thinking out loud and wondering whether or not when you set up depletion you regarded yourself as the owner of the oil?

A If we failed to do certain things there is a penalty for that failure but other than that I can think of no circumstances which would include the possibility of the lease being cancelled without any cause whatever, I know of no instance when that has been done.

Q in any event is it fair then to leave it at that, is it fair to suggest to you that your company when it acquires the lease from the Crown,knowing that it is always able to

fulfil its obligations and expecting to fulfil them and carrying out the terms of the lease properly, that you then regard yourself as the owner of that oil and set about getting it, winning it, and you provide for depletion from year to year because it is your property, as you regard it as being depleted from year to year?

A I think that is my submission.

Q Of course that is not, as the Chairman points out, the legal position. That will be exhausted by other witnesses, certainly by Mr. Plotkins as he now suggests. Now I ask you to give us some records of the operating costs of certain wells in which the Royalite has only an interest as an operator, if you will file those cases.

MAJOR LIPSETT: We are finished with the Jersey Statements, Mr. Frawley.

MR. FRAWLEY: No, but I thought I would give Mr. Burns an opportunity to make a concise statement on that, he wanted an opportunity to look at the records and then deal with that later. I think it would be advisable, Mr. Burns, to put on the record everything you have to say by way of criticism, perhaps that is not the way to describe it, you criticise the value of these statements for the Commission?

A With respect to the pipeline I did.

Q Yes, that is when it came up, with respect to pipeline and they may not be the same, there may not be the same infirmatics at all with respect to the crude oil.

THE CHAIRMAN: We were invited to disregard them.

MR. FRAWLEY: That is true.

THE CHAIRMAN: We are not quite sure of being able to put our finger on every part of your evidence, Mr.

Burns, when you addressed yourself to these statements in inviting us to disregard them for pipeline purposes. Now we want to give you an opportunity to point to every place you have spoken about them or again say what you have to say about them and add anything you wish.

A Very good sir.

Q THE CHAIRMAN: If they should be disregarded we want to have all your reasons for disregarding them.

Q MR. FRAWLEY: First of all, do you invite the Commission to disregard these Jersey Statements in dealing with the cost of the production of crude oil?

A There are many imperfections.

THE CHAIRMAN: I didn't put that to him, he asked us to disregard them.

MR. FRAWLEY: Yes, and I am asking something quite different.

Q MR. FRAWLEY: And I would like to know if you are asking the Commission to disregard them in regard to the matter we are now discussing, the cost of production of crude?

A Well there are many imperfections in them I am quite sure.

Q Perhaps when you come back to make a further statement you might make a considered statement as to whether or not you would like to have the Commission regard them or to disregard them and to say why?

A Very good, sir.

Q MAJOR LIPSETT: Would it be possible to give us the figure of the cost of crude oil on the same basis for 1938, without making out a statement?

A For 1938, I can do that.

Q Without making out the whole statement?

A Yes. I think it would be necessary to make out the whole

statement but we can do that at any rate. There is a great deal of material which is ready and the rest can be made out.

Q It will bring your picture up-to-date, whether it is correct or not?

A Yes.

Q MR. FRAWLEY: Now Mr. Burns, have you a statement with respect to the Richwell Company and the York Oil?

A Yes. Before we pass on to that, I might say I have also got the operating costs to-date of the wells which I have previously discussed, together with the break-down of the various classes of expenses. I have those with copies, would you like to have those first?

Q Yes, please?

Q THE CHAIRMAN: You mean these four Royalite Wells?

A Yes, Sterling Pacific No.'s 3, 4, 5, and 6.

Q MR. FRAWLEY: It is one statement?

A Yes.

(STATEMENT PRODUCED AND MARKED AS EXHIBIT "247").

Q I do not know that that requires very much explanation; is there anything about it now that you would particularly like to call the Commission's attention to, that does not speak for itself?

A I believe it speaks for itself. There is nothing particularly there that needs elaboration.

Q Can you relate it to , well relate it to Exhibit "246" where does it check into that?

A Nowhere, sir. There is a figure on "246" which sets up the total operating costs of the four wells, that is estimated for ten years' operation, that figure is $217,066.70.

MAJOR LIPSETT: That is on the basis of $21,000 a year, or is that for ten years?

A That is for ten years.

Q Well then this Exhibit "247" practically ties in with this?

A Well sir, in the first year the expenses are somewhat heavier on account of acidization and the labour and intangible costs in connection with the installation of production equipment.

Q This figure of $217,000 in Exhibit "246", that would be $21,000 per year for four wells, would it not, approximately $5,000 per well per year?

A That would be correct, sir, $21,706 per year.

Q For four wells?

A For four wells.

Q $21,706?

A Yes.

Q Then in Exhibit "247" Mr. Burns, this is for over two years, these figures, are they?

A That is correct, sir.

Q That would make Sterling Pacific No. 3 $10,000 per year, approximately?

A That is correct but it would be noted that there is a charge of $6,046.85 for acidization which is not likely to be recurrent and there is a charge of $3,856.75 representing the labour and intangible costs of installing production equipment which is also not likely to be recurrent.

Q And there are two corresponding figures in the other three wells, the four, five and six wells?

A That is correct.

Q MR. FRAWLEY: Mr. Burns, it is rather interesting to compare the operating costs of 5.6 cents on the three

[illegible]

[illegible] : [illegible] the basis of [illegible]

a year, or [illegible] for [illegible] worker

[illegible] in [illegible] year.

[illegible] "[illegible]" practically then [illegible]

[illegible], in the [illegible] year the expenses are somewhat

[illegible] of [illegible] and the labour and [illegible]

[illegible] production. [illegible] production of pro-

[illegible] equipment.

This figure of [illegible] "[illegible]", that would be

£[illegible] per [illegible] [illegible], would [illegible] approximately

£[illegible] [illegible] [illegible]

[illegible] £[illegible] per year.

[illegible]

[illegible] £[illegible].

£[illegible]

.

The [illegible] "[illegible]" [illegible] Burns, which is for over [illegible] years,

[illegible] figures, [illegible]

[illegible] in [illegible], [illegible].

[illegible] £10,000 [illegible],

approximately.

This is correct but it would be noted that there is

[illegible] of [illegible] for [illegible] which is not [illegible]

be [illegible] and there is [illegible]

the labour and [illegible] costs of installing [illegible]

equipment which is [illegible] [illegible] [illegible].

[illegible] there are two [illegible] figures [illegible]

[illegible], the [illegible] [illegible] [illegible]

There is [illegible].

[illegible]:

[illegible]

Sterling Pacific wells, 4, 5 and 6, the operating charge of 5.6 cents as against the total cost you have given us on Exhibit "246" of $1.01 per barrel, the 95 cents being all the other charges, all the charges other than the operating charges at the well, namely the cost of the lease, the drilling costs and generally speaking the capital charges?

A That is correct.

Q Do you know enough about the situation in Turner Valley to be able to say that is a pretty general situation, that there is that relationship between the actual cost of production after production has been obtained, as related to the whole cost, including leases and drilling costs?

A No, I cannot speak generally with regard to the Turner Valley.

Q But these figures run pretty well through the cases that you have had knowledge of, either the Royalite Wells or the Royalite Contract Wells?

A You refer to these production costs shown on Exhibit "247"?

Q Yes, as against, as compared with the total costs per barrel shown on Exhibit "246"?

A I cannot answer that. I can however continue to give you the costs for the other wells that you have asked for and from those you may be able to make the comparison.

Q All right, will you do that?

A I believe you first asked for Richwell?

Q Yes, Richwell?

A And here it is under "Trail Oils Limited", that is---

Q The record of operating costs from October 1938 to March 31st, 1939 of Richwell No. 1 Well, owned by Trail Oils, Ltd?

A Yes, they are the authorized operators, I do not know how far

they are the owners.

(STATEMENT PRODUCED AND MARKED EXHIBIT "248").

(Go to number 6684)

T. E. Burns.

Q MR. FRAWLEY: You might just give us the results of that statement, Mr. Burns.

THE CHAIRMAN: What knowledge has the witness of this well?

Q MR. FRAWLEY: What is the connection of your company with this well?

A Trail Oils Limited entered into an agreement with the Royalite Oil Company Limited for the operation of the well so long as the production is obtained. The Royalite also has the right to purchase the production from the well.

THE CHAIRMAN: All right.

Q MR. FRAWLEY: This statement is called Record of Operating Expense, from October, 1938, to March 31st, 1939, L. S. D. 5, section 16, in township 18, range 2, West of the 5th Meridian?

A Yes. The total cost is shown to be $13,562.90. That is the total direct cost of operating the well. The number of barrels produced is shown as 42,184 barrels, and the cost of operating the well per barrel is 32.2 cents per barrel.

Q MR. FRAWLEY: You have nothing further you want to add. There is nothing peculiar about this?

A Nothing. I might say it contains nothing other than what appears.

Q A big well, small well or an average well?

A It is an average well. I can give you the allowable if you wish. Its present allowable is 284 barrels per day, and the average allowable is 271 barrels per day at the present time.

T. E. Burns.

Q You have some other companies with respect to which you are in the same position?

A Yes, I have here Crude Oils Limited, York No. 1.

Q THE CHAIRMAN: You might just tell us, this compares with Exhibit "246", your own statement regarding Royalite wells. This is a pure operating expense record. You do not take into account anything else?

A That is correct, Sir. I have no knowledge of the value of the wells or what was paid for them.

Q MR. FRAWLEY: Do you know what the drilling costs were?

A I do not know the drilling costs, no, nor any information with respect to surface rights.

THE CHAIRMAN: You say assuming it was given to them it would cost them 32.2 cents to operate the well and get the oil out?

A That is correct, Sir. That is what it has cost to date.

Q MR. FRAWLEY: You have a similar statement with respect to Crude Oils Limited, York No. 1, a record of operating expense from September, 1938, to March 31st, 1939?

A Yes.

(DOCUMENT IN QUESTION IS NOW EXHIBIT "249".)

A I may say too, Sir, by agreement Royalite Oil Limited operates this well and this is the production cost. The well came into production in September, 1938, and to date the expenditure is $10,294.80, which has been incurred by way of direct operating expenses. It has

produced 101,900 barrels, and the direct cost of operating the well per barrel is 10.1 cents.

Q What is the allowable there, please, Mr. Burns?

A The allowable of York No. 1 at the present time is 429 barrels.

Q That is a big well?

A Yes.

Q As wells go?

A Yes.

Q It is interesting to compare Exhibit "246", well, and compare Exhibit "247", "248" and "249" with your 3 Sterling Pacific wells, Nos. 4, 5 and 6?

A These wells, of course, Sterling Pacific Nos. 4, 5 and 6, are produced all together.

Q Which, in itself, you say reduces----

A It reduces the labour cost and other costs.

Q And then we have, particularly I was interested in "248" and "249", those two wells. That is Rich-well, No. 1 and York No. 1. They have run from about the same period, from September, 1938, to the end of March, 1939, in the case of York?

A From October, 1938, to the end of March, 1939 in the case of Rich-well, roughly the same operating period, and the difference is 10.1 cents in the case of York, and 32.2 cents in the case of Rich-well. I suppose that is almost, is it entirely, attributed to the fact that there is an allowable of 429 barrels per day in the case of York and 240 in the case of Rich-well, which gives a lot more barrels in the case of York?

A That accounts for most of the discrepancy.

Q You have $500.00 more - I do not want to go into these

figures in detail because I suppose there are all sorts of reasons for it, but operators and assistants in the case of York, $3,190.00, and in the case of Rich-well, $2,580.00?

A Yes, the well has produced one month longer, you will notice, too. York came into production in September and Rich-well in October.

Q About $3,000 a month it is running?

A Beg pardon?

Q About 3,000 a month. You have $10,000.00 in the case of York, and $13,000.00 in the case of Rich-well?

A No, this is to March 31st, 1939.

Q For six months' operation in the case of York, is it six months?

A Seven months operation in the case of York.

Q Ten thousand odd dollars for six months, and in the case of Rich-well, $13,000.00. That is the only reason I said $3,000.00 a month.

A That is what it has run, yes. But again I will point out the cost of acidizing as being $2,356.11 on York No. 1 and labour and expenses necessary for installation of production equipment in that well, too, which is not like to be recurrent. I think $3,000.00 a month is very high. It would be $3,000.00 a month for the operation of the two wells.

THE CHAIRMAN: Not $3,000.00 a month.

MR. NOLAN: $3,000.00 spread over the months, $500.00 a month?

A Yes.

Q MR. FRAWLEY: Now, then, we have some more wells there?

T. E. Burns.

A Yes, I have a statement here, Deep Oils Limited, Consolidated No. 1 Well.

Q That is also a record of operating expenses from October, 1938, to March 31st, 1939?

A That is correct.

Q Deep Oils Limited, Consolidated No. 1 Well.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "250".)

Q The statement shows a total operating expense during that period of $11,047.49. Total barrels produced, 55,457 barrels; cost of operating the well per barrel 19.9 cents. What is the allowable on that well?

A The allowable on Consolidated No. 1 is 377 barrels at the present time.

Q Have you any more, Mr. Burns?

A No, I have no others.

THE CHAIRMAN: I thought you mentioned one more. Probably that is Consolidated No. 1 well.

MR. NOLAN: On the Deep Oils statement, yes, Sir.

Q MR. FRAWLEY: You are submitting to the Commission and now leaving with the Commission the cost of producing crude on the Sterling Pacific lease. You have not taken the other wells which the company owns outright for the reasons you have stated earlier, these two wells in the new part of the field, Nos. 35 and 29?

A That is correct.

Q And then with respect to------ you have, of course, only taken the production costs of the Royalite Company.

The North West Company also produces crude oil, does it?

A Not in the Turner Valley.

Q Not in the Turner Valley?

A No.

Q The Dalhousie Company?

A The Dalhousie Oil Company Limited has drilled one well in the hope of obtaining crude oil but none was encountered and the well was abandoned.

Q And these other companies whose names escape me, the South West Petroleum?

A The South West Petroleum Company Limited has no crude oil production at the present time.

Q Foothills?

A The Foothills Gas & Oil Company Limited has no crude oil production at the present time. Its wells operating in Turner Valley are what we have generally considered to be gas wells.

THE CHAIRMAN: You have some questions, Mr. Plotkins?

MR. PLOTKINS: Yes.

Q The leases in Turner Valley, Mr. Burns, in 1934, when you acquired this Sterling Pacific, and in 1935, were not held in very great - that is, were not held at very great values by the average holder?

A You mean there was no crude oil production developed as we know it to-day?

Q Yes, there was no sign a of any crude oil?

A To that extent the values were reduced, you might say.

Q Not only that, but at that time is it correct to say that the development had practically ceased, due to

certain laws of the Province in, if I remember right, forbidding drilling to the lime?

A I would not say that drilling had been prohibited. I believe that in the year 1933 Sterling Royalties Limited drilled a well in the Turner Valley and in 1934 Century Royalties Limited drilled in the Turner Valley. I know of other companies who were drilling atthe time.

Q Maybe I had better be a little more specific. In the case of North Turner Valley certain areas were reserved by the Government and no drilling to the lime was permitted?

A In the case of North Turner Valley?

Q Yes, there were certain areas that the Government had set aside. Do you recall that?

A No, not offhand. There was some discussion about it. Was that prohibition to drill, was that carried through? I thought it was not. As I recall it was never really made effective.

Q For a certain period the Provincial Government delimited a certain area in Turner Valley, and as I remember it no drilling to the lime was permitted without a special permit?

A Perhaps you are right, Mr. Plotkins, I have no knowledge.

Q In the South end in 1934 and 1935 it was more or less prospecting?

A In the South end it was which?

Q More or less prospecting? In other words the drilling that took place there was to extend the known reserves of gas or the possibility of finding crude oil?

A That is correct. But there was drilling went on.

Q So that the values of leases outside of the Royalite, these values on the market were very low. Leases were

offered at very low figures.

A I do not recall that, Mr. Plotkins. As I recall it there was quite a considerable amount of activity in the South end of the field. That is the part we are discussing now, the area contiguous to this or adjacent to the lands on which Sterling Pacific wells Nos. 3, 4 and 5 and 6 are located. I can recall the Century well having been drilled about that time. Carleton Royalties was drilled about that time. It seems to me Sovereign Royalties, and Myers and Wright, oh, there was a lot of them. Leases were quite valuable, I think.

Q You heard the evidence of Mr. Wilkinson in respect of the Century Royalties that was drilling just about that time?

A Yes, I heard that.

Q If I recall it right he stated that your Company's geologists gave it as their opinion that the development of any further land in that particular area was not warranted, due to the deeper drilling?

A Well he may have stated it, I do not know.

Q So what would give or what would justify your company placing a value of $413,000.00 on this Sterling Pacific lease? Can you give us any basis for it?

A Yes, I have already said we issued a total of 64,450 shares for various considerations, and when we came to set those assets which the Royalite Company had purchased on its books, when we came to set them up on its books, we took the known value of the well. We took the known cost of the well, because we knew that cost. The costs had been accumulated in our own office and naturally we took those as being the costs. We put a value on certain surface rights. I forget now, but some nominal value on the surface property we also acquired,

and we got a quantity of drilling equipment too at the time. That was appraised. An inventory was taken of it, it was appraised and the value was placed upon it and set up in our books. When we had ascertained all of the values that we knew, that we could roughly appraise or value, we simply applied the difference to the leases. That is 64,450 shares at $12.00 would amount to a certain sum of money, and after deduction of the cost of the well and the appraisal value of the drilling equipment and the value of the surface rights, etc., the balance was, I believe, $413,000.00, and we called that the value of the leases.

Q Can you tell us the average production, the value of the daily production at the time you acquired these leases.

A The value of the daily production. No, I cannot say that at this time. I could inform myself.

Q So that you took the cost of drilling the wells as they could be ascertained and the cost of the property?

A Yes.

Q To the original company?

A The North West Company had drilled the well and as the North West Company accounting is also carried out in our office, we knew what the wells had cost. So we took them over at the cost to the North West Company. We took them over to the Royalite Company at that time.

Q You knew the cost of the leases to the predecessor company?

A No, not to the predecessor company.

Q You did not take that into consideration in setting the book value?

A No.

Q So that you are not prepared to say that you judged the value by the recovery, the possible recovery of the wells?

A No. In valuing these wells, which I have done, I have merely based it on what we actually paid for lands adjacent to it.

Q Did your office here calculate the values that would be paid for that property in shares?

A Well I do not know. I did not.

Q Do you know if your office here did it?

A I cannot say that. I do not know.

Q Now do you know if is it in your knowledge whether the Royalite shares are maintained on the market? In other words whether there is any agency that tries to stabilize the prices of the shares on the Exchange?

A I have no knowledge of any such agency. I do not believe any such agency exists.

Q Can you tell us who were the main holders of Sterling Pacific shares at the time of your purchase?

A No, I have no knowledge of that. The London & Western Trust Company of Vancouver were the liquidators. These shares were, of course, interchangeable for Royalite. It could be determined who got the Royalite shares in exchange. We have a record of that in our office.

Q In connection with the charges that you make to each well in Turner Valley, I am talking about operating charges, is it your custom, - well I will give you one particular instance to illustrate the point. Is it your custom, for instance, when you have some equipment to go to a particular well, and you have the same or some equipment to go to the other wells at the same time, from your Central warehouse or from any other point of supply, is it your custom to have your truck drivers furnished with a book and charge the full value of that particular trip to each well?

A Charge the full value, is that what you said?

Q I will illustrate it to make it clear. If a trip from your central warehouse in Turner Valley to a given well, done by an outsider , is worth $15.00, and you have to take some small piece of equipment or a pump or anything, and you take some equipment to some other well, either owned by yourself or operated by your Company, is it not customary to charge $15.00 to each well?

A No.

Q It is not?

A No.

Q Are you positive of that?

A Well, is this an instance? I can tell you it is not the practice. It is not any policy, I can tell you that. I am positive of that.

Q It is not the policy?

A No, it is not the policy.

Q Would you be prepared to deny that your drivers are instructed, according to just what I have explained, in other words, are instructed to charge each well the full amount?

A I do not understand that, Mr. Plotkins. Maybe I should explain what we do. Most of our trucking is hired trucking. We do not operate very many trucks of our own. We engage men, contractors resident in Turner Valley, having the equipment there. If one of these hired truckers was ordered to go to the warehouse and pick up a pump for say, Sterling Pacific No. 3, and he was also instructed to take another pump to another well, well the cost would be divided between those two wells. That is our policy.

Q That would be normally what you would expect any company to

do, would it not be?

A Yes.

Q A matter of just plain honesty? In the case of the Roy-

A alite is it not customary to make a full charge to each well?

A No, it is not.

THE CHAIRMAN: The witness has already answered, it is not a matter of policy and he does not know of it being done. It will not add anything to it to have him repeat that four times.

Q MR. PLOTKINS: You supply estimates as to the cost of production before undertaking a drilling program from year to year, to your head office don't you, Mr. Burns?

A Supply estimates as to the cost of production? Yes, we prepare a budget and I think I have submitted that.

Q You have submitted the budget, yes.

A During the pipe line phase of this Inquiry.

Q Do you not supply further information in what has been submitted to the extent that it shows the probable recovery and the cost of the recovery for the oil. For instance last year's program where you have 11 wells. You estimate the cost of drilling those eleven wells at so much money. That is what you have given us as an estimate?

A Yes.

Q That was submitted last September to your head office?

A That is correct. When you say to our head office you are speaking now to me as an employee of the Imperial Oil Limited, and that is in this sense, or under the Royalite. Because the Royalite's head office is here.

Q What I mean is, whe Royalite when it makes estimates

T. E. Burns.

it is checked by Imperial Oil, as I understand it, is that correct?

A Yes.

Q These estimates you gave us, they were sent to Toronto for approval or somewhere for approval?

A Yes, in order to make up, I presume, a combined Imperial picture of capital development.

Q So that for all practical purposes we can regard Toronto or New York as the head office of the Royalite?

A For all practical purposes, no, I would not say that.

MR. NOLAN: That is an improper question.

THE CHAIRMAN: I am sorry, I did not catch the question.

MR. NOLAN: He said for all practical purposes we can regard the head office of the Royalite as at Toronto or New York, and he wants the witness to answer that.

MR. PLOTKINS: From the standpoint of submitting estimates of costs to be approved?

THE CHAIRMAN: It has been proven where these head offices are, Mr. Plotkins. You make your point that subordinate companies have to submit to the higher up companies?

MR. PLOTKINS: Yes.

THE CHAIRMAN: Why press him about where the head office is, to all intents and purposes?

MR. PPLOTKINS: I am not pressing Mr. Burns. He himself asked me if he was to regard himself in this particular instance as an employee of the Imperial Oil, and of course, I am not in a position to say.

THE CHAIRMAN: You were speaking of sending

statements to the head office.

MR. PLOTKINS: Yes.

THE CHAIRMAN: The witness is an officer of both companies. If you refer to his head office as an officer of the Imperial Oil, all right, it is Toronto. If you are referring to his head office as an officer of Royalite, it is in Calgary.

Q MR. PLOTKINS: What I am referring to is the head office in Toronto, that you submit these statements to for approval, this budget. You supplied additional statements that shows that if you spend so much money you intend to recover so much in this year, next year and so forth, and you transmit that knowledge to the cost of production, is that correct?

A No. I do not know of any. There may be statements in letter form or something which show that, but I have no knowledge of anything like that. We do submit this budget, which is the amount which we expect to spend in any forthcoming year on capital development. And then throughout the year as necessity for these expenditures arise, we submit a further estimate of our cost. In the first instance we, fairly roughly we just calculate we are going to do so many thousand feet of drilling, and it is going to cost us so much money. Later on we know more about where that drilling is going tobe done and we send more specific information, after the location of the well has been determined on.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

MR. FRAWLEY: Mr. Harvie.

MR. HARVIE: Mr. Chairman, the British American Oil Company has brought Mr. B. E. Hull of Houston, Texas, who expects to be able to show that he is a man of experience in the pipeline business and to give evidence on certain matters that we are interested in. I will call Mr. Hull.

BURTON E. HULL, having been first duly sworn, examined by Mr. Harvie said:

Q Mr. Hull, you reside in Houston, Texas?

A Yes.

Q And you are a graduate in Civil Engineering from the Texas University?

A Yes.

Q You are active in the pipeline business?

A Yes.

Q And have had considerable experience?

A Yes.

Q How long have you been in the pipeline business, Mr. Hull?

A 34 years.

Q And will you let me, just give me an idea of what your office is or your connection with the various pipeline companies might be?

A Well I have been connected with them, originally as an engineer and of recent years I finally succeeded to the management of these lines with which I am connected.

Q So you are now President and Manager of certain pipeline companies operating throughout the States?

A Yes.

Q Will you give me some details, please, as to what companies and where they operate?

A Well one of them is the Texas Empire Company operating in the

States of Oklahoma, Kansas, Missouri, Illinois and Indiana.

Q And you are President and Manager of that company?

A Yes.

Q Active in its operations?

A Yes.

Q You are active now in the operations of the company?

A Yes.

Q Just give me some idea of the extent of the operations of that company, for instance the amount of mileage operated?

A We are operating approximately 1,000 miles of trunk lines, as we call it; that particular company does not own or operate any gathering facilities. However we have termini in each principal producing area of Kansas and Oklahoma and also in Illinois and receive crude oil from other carriers and transport it to consignees principally in the Great Lakes districts around Chicago.

Q Any other company?

A The Texas-New Mexico Pipeline Company operating in the States of Texas and New Mexico.

Q What length of line does it operate?

A They have about, we have about 1130 miles of line.

Q And you hold the same offices in that company?

A Yes.

Q MAJOR LIPSETT: Is that trunk-line?

A Yes, the trunk-line runs from Artesian, New Mexico, to Houston Texas.

Q MR. HARVIE: Does that company operate gathering lines?

A Yes, in West Texas and in New Mexico.

Q Any other company?

A The Kaw Pipeline Company operates in Kansas; principally gathering facilities. The trunk-line is short, only about 45 miles of trunk-line; the remainder are gathering lines from fields in Western Kansas and terminals, the line terminates in the Central part of the State of Kansas where the oil gathered is delivered to other carriers and moves, some of it Eastward and some of it down into Oklahoma.

Q And altogether operating how many miles of gathering lines?

A I do not remember just how many miles of gathering lines, if I might be permitted to look at my notes, I could look at my notes and tell you.

Q Yes, certainly, I think approximately will be sufficient.

A I think it is around 500 miles.

Q That is 500 miles of gathering and trunk?

A There is 480 miles of gathering and trunk lines, of that amount about 50 miles of trunk line and the balance gathering lines.

Q Any other company?

A The Central States Pipeline Company operating in Illinois; it is also similar to the Kaw, the principal operation is gathering services with about 70 miles or 75 miles of trunk-line. The oil is gathered and delivered to refineries and to other carriers, who move it to the Great Lakes area. They have about 200 miles, the Central States, of line.

Q Part of which is trunk and part gathering?

A Yes.

Q Any other companies?

A The Texas Pipeline Company operating in Texas, Oklahoma, no, Texas, Louisiana and Arkansas.

Q What length of lines?

A 4400 miles, the Texas Pipeline Company.

Q How is that divided between trunk-lines and gathering lines?

A There are about, as near as I can tell you now, about 1400 miles of gathering lines and about 3000 miles of trunk-lines.

Q And you hold the same offices in all these companies?

A Yes.

Q Can you give me any idea as to the extent of the through-put of those lines last year or at any time in recent years?

A You want each one of them.

Q Oh no, generally?

A Well the whole crude moved, we delivered out of our system last year 159,000,000 barrels, that is for the year.

Q For the crude.

A That is for all of those lines I mentioned.

Q Have you anything else you wish to say in connection with your experience or qualifications for speaking to the subject, Mr. Hull, that might throw some light on it?

A Well there is very little I can add; as I mentioned before I entered the business as an engineer, as a junior engineer. I think I have had some experience in all phases of the oil transportation business.

Q And you have been in the oil transportation business throughout these 34 years?

A Yes.

Q Mr. Hull, have you got a general knowledge or a knowledge of the pipeline system known as the Royalite system in this district, from Turner Valley to Calgary, are you familiar with the, in a general way, with the Royalite Pipeline Company's system?

A Only in a general way.

Q You have a general knowledge of that?

A Yes.

Q Now I would like, having that system in mind, I would like you to give us your views as, in the first place, as to the necessity we will say of terminal storage in order to effectively and efficiently operate that line and if you care you may divide that into what branches you wish, for instance, if it was only delivered to refineries and otherwise?

A Well I would say if the shippers or consignees have adequate tankage at their refineries or other points of delivery I fail to see where the pipeline company needs any terminal storage.

Q Now you are talking about where deliveries are made directly to refineries who have their own storage facilities?

A Well it might be there are some shipper's terminal that may have tankage, just so they have tankage.

Q Whether it is a refinery-----

A It doesn't make any difference whether it is a refinery or not, so long as the delivery is into the tanks owned by the shipper, so I do not see where the pipeline company need terminal storage.

Q I gather from that statement that your view is if the pipeline system were only delivering to the refineries and that those refineries had,- I am talking about refineries or consignees?

A Yes.

Q Who have tankage, to simplify matters, we will say the refineries?

A Yes.

Q And they have ample storage themselves, that in your opinion no terminal storage is required by the pipeline company?

A That is correct.

Q What would you think of the ample storage to operate, in this country, that the refineries would need?

A Well of course I do not know your conditions well enough to be able to say what you would need as a carry-over for peak periods, for refinery operations; if your question is directed to what is necessary in the way of normal requirements of crude tankage to receive uninterrupted deliveries from the pipeline system----

Q Yes, restricting it to that?

A Without respect to the additional storage to carry the refinery over peak operating periods, I would say the crude tankage tanks that would hold you might say the maximum refinery consumption for one week would be ample.

Q In other words, a refinery that had peak receipts of 5,000 barrels a day, if they had approximately 35000 barrels of tankage?

A That would be ample.

Q And that is restricting your remarks purely to the operating of the pipeline?

A That would have to be a little more than 35, I would say they would have to have one tank that would be delivered into, while they were withdrawing oil from the other, you couldn't put it all into one tank.

Q That tankage should be split?

A Yes, two tanks, two or more tanks of a capacity of 35,000 it would take care of normally a 5,000 barrel refinery.

Q But as a general statement you would say that a refinery that

had a crude oil storage capacity that it could put at the disposal of the pipeline system equal to a week's maximum requirement would be ample?

A That would be ample, yes.

Q MAJOR LIPSETT: Just to make it clear, that refinery of 5,000 barrels, would require 14 days' storage, would it not?

A No sir.

Q Two tanks of 35?

A No, I said divided into two tanks.

Q Oh, 35,000 divided into two tanks?

A Yes, because it is a matter only of opening a valve on one and closing it on the other when you want to switch.

Q MR. HARVIE: The reason for that is, that you would not be pumping in and out both at the same time?

A Yes, I want to make it clear though, the refiner himself would not consider that enough storage because he would want some more. I am speaking solely from the point of the mechanism of delivering his oil, that is all, that is necessary to deliver the oil.

Q So far as the facilities you would have to supply to the pipeline company to allow the pipeline company to operate efficiently?

A That is right; the refiner might consider they might need a great deal more oil storage than that on hand at certain times.

Q As a matter of fact we have evidence that it is the usual practice sometimes to have crude capacity for 60 days, that is what you mean, that additional storage?

A Yes. I know of one refinery that is handling 18,000 barrels per day and has been doing it for ten years and they have

only 50,000 barrels of crude tankage in two tanks; now that is unusual, that is only a little over two days' supply. They have never had an interruption. That is unusual as I say. You should have about a week's supply.

Q. Have you any other comment that you think might be helpful to the Commission in regard to terminal facilities of the pipeline system and we will restrict our remarks for the moment to deliveries to refineries along the lines we have discussed?

A Well it is all very simple. If we will say the consignee in each case is a refinery, if he has ample crude storage or rather crude tankage in which to receive the crude oil from the pipeline, why there is very little to add, that is all that is necessary.

Q Now will you give me your views in regard to the terminal facilities, we will say, in respect of terminal tankage required for a pipeline company, that is dealing in tank cars and tank trucks deliveries?

A You mean----

Q What requirements the pipeline company would need, if any?

A Well they would need a loading rack on the railway or railways.

Q I am referring my question at the time, at the moment, to the matter of tankage?

A Well I would say that tankage divided into two tanks, that would have a combined capacity of approximately one week's maximum shipment by rail or tank car would be, by tank car or tank truck would be adequate.

Q And that is you think a proper investment for the pipeline company to have and to make when it is making tank car deliveries to them, that amount of storage available?

only [illegible],000 barrels of crude [illegible]

in [illegible], that is only a little over two days' supply.

The [illegible] had [illegible] interruption. [illegible]

say. [illegible] have [illegible] supply.

have [illegible] other [illegible] might [illegible]

[illegible] in regard [illegible]

pipeline [illegible] we [illegible] remark [illegible]

moments [illegible] refineries to [illegible] along the line [illegible]

discussed?

[illegible] it is all very [illegible]. [illegible] the consignee

is each case in a refinery, [illegible] crude storage

or rather [illegible] tankage in which [illegible] the crude oil

[illegible], why there is [illegible] to add, that in

[illegible] necessary.

Now [illegible] in regard to the terminal

facilities, we will say, in respect of terminal tankage re-

quired [illegible] pipeline [illegible], that is dealing in tank cars

and [illegible] delivery.

[illegible]

[illegible] the pipeline company would need, if any

[illegible] read [illegible] rail [illegible]

[illegible]

[illegible] question [illegible] the time, [illegible]

[illegible] of tankage?

[illegible] would [illegible] divided into two [illegible], first

[illegible] have [illegible] of approximately one week's

maximum [illegible] we [illegible]

[illegible]

and [illegible] investment [illegible]

company to have [illegible] in making [illegible]

[illegible] there, [illegible] storage [illegible]

A Yes, as a minimum they should have about a week's supply or be able to put that much in.

Q That should be in more than one tank?

A It ought to be in at least two tanks.

Q And how about truck deliveries, you might give me your views as to whether it is common practice that pipeline companies make deliveries into trucks?

A No sir, it is not common practice, not into tank trucks.

Q Do you know of any cases where it is done?

A It is done by some of the smaller pipeline companies in the Illinois field at this time and some of the small ones in the East Texas field, are loading limited quantities of crude oil into tank trucks.

Q But you say as a rule that is not considered a function of the pipeline company?

A No.

Q By that I presume you mean the man who wanted tank truck deliveries would have their own tankage?

A That is correct.

Q Now assuming the Commission do want to give consideration to the matter of having tank truck loading facilities available, and supplied by the pipeline company, would you give me your views as to what might be required so far as storage is concerned?

A Well would that be handled, would you consider that at some separate point from where you load the tank cars or at the same point?

Q Possibly the same point, I would like your views on the efficiency of either system?

A Well of course the same valve in the line or a hose or something is all you need to fill the truck after, it is not good

practice, it can be done that way, and I do not think any pipeline for any lengthy period of time would want to use that practice but I would say as I do, let us assume that there is no tank, there are no tank cars to be loaded but you want facilities to load tank trucks, then I would say that a tank or one or two tanks that would hold enough to load trucks for a week would be all you would need.

Q Do I gather from your remarks that you think that possibly the same facilities that are made available to load tank cars should be used for loading tank trucks?

A So far as the tankage is concerned and all you need is a pipe connection with a hose on it that you can drop into the tank truck.

Q The same storage tanks?

A Yes.

Q In that case you might need a seven days' supply or a week's storagefor both?

A That would be plenty.

Q Are you at all familiar with the facilities that are now available and the layout in connection with the Royalite's pipeline tank farm, we will call it, at the Imperial Refinery's site?

A In a general way. I have not gone and inspected all their facilities but I know where they are, where they are located, the general location.

Q Would you say with the possibility of requiring additional storage there or renting storage from the Imperial without building new storage, might answer the purpose for tank trucks or tank cars, I should say?

A Well it is a matter to be worked out between the owners of the

tanks and the carrier, the Royalite. If the Imperial and the Royalite desire to make an arrangement with each other for the use of the Imperial's tanks I see no objection to it, no reason why it cannot be done.

Q Assuming that at the present time between the Royalite and we will assume the Royalite Oil Company has such terminal storage as you have suggested is necessary for these operations, and that the Imperial have the loading facilities, would you give me your views as to whether you think, what would be an effective way for them to get together and work out this problem?

A Well it is customary in the States, very few of the pipeline companies own any terminal, own or control any terminal facilities for loading tank cars or tank trucks and they almost invariably find it is much more economical to arrange with someone else owning the terminal facilities or refinery, say the refinery, to do the loading for them, the terminal loading for them because the refinery has the persona there to operate the refinery all the time and handle their crude oil and it means nothing for them in addition to that to load tank cars and tank trucks.

Q They might get better and more efficient service by combining the two?

A Certainly, and also the tanks for taking care of the crude oil, that could easily be taken care of in the refinery's crude tanks.

Q Are you familiar with what might be the customary rate for that service, what we would call the loading service in tank cars, in addition to the regular pipeline rate?

A Yes, the customary rate at the present time has been for a

number of years is 2½ cents a barrel.

Q Just what does that include, Mr. Hull?

A That includes, that is the total charge for storing temporarily, temporary storage of the oil, and when I say temporary I mean a matter of a week or two weeks and the loading of the oil into tank cars or tank trucks.

Q Would that include any loss in those operations?

A Well not so far as the shipper is concerned, the shipper pays the 2½ cents and gets all of his oil loaded.

Q In that 2½ cents would it include any loss that the pipeline as loaders take in that operation?

A Yes, in other words, whoever performs the terminal services are responsible for any losses incurred and have to absorb it themselves.

(Go to number 6710)

[illegible] number [illegible] is by owning a barrel.

[illegible] are not [illegible] Hollywood, [illegible]

[illegible] [illegible], that is the total charge for storing the-

[illegible] [illegible] [illegible] of the oil, and [illegible]

[illegible] [illegible] [illegible] week [illegible] the

[illegible] [illegible] oil tanks [illegible] [illegible] [illegible].

[illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible], [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible]

[illegible], [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

(Continued [illegible])

Q And that 2½ cents is considered ample to look after that as well as other services?

A That is correct. I am qualifying that by saying that is the general practice. There may be instances of some private agreement of which I have no knowledge where the shipper agrees to stand some loss. I am not sure. That is on terminal storage.

Q That is generally recognized practice?

A That is the generally recognized practice.

Q Would you think that would possibly be the fair one under the circumstances as you understand them here, in this system?

A I think so.

Q Can you give me a similar figure for that tank truck loading, or are you familiar with that?

MR. FRAILEY: He has already put that in there.

A There is so little tank truck loading, I would not be able to say. As I mentioned a while ago there is very little loading of tank trucks with crude oil except in the oil fields where the producer loads the tank trucks from his lease tank. The little oil that is loaded in tank trucks at the terminus of the pipe line, or some distance from the oil field, I would not want to say there is any regular charge. But I believe this, that should that service be required the terminalling company would probably charge exactly the same as they would do for loading tank cars, because in nearly all instances that I mention, that the terminalling service is for loading into tank cars or other vessels. So that could mean tank trucks as well as anything else.

Q Now, going from there to the matter of pipe line rates, transportation rates and so on. Will you give me your views as to the real principles, we might say rather than maybe the figures, that might be applied in a case of this kind, such as whether there should be a rate for one service and an additional rate for other services or not?

A There is usually a base rate for a gathering service, in a producing field or district which is tributary to the terminus of a pipe line. Then there is customarily a trunk line rate which provides for the transportation of oil from the point of receipt by the pipe line company or carrier to the terminus, and includes delivery into the consignee's tanks, unless additional pumping service is required at the destination to put the oil into the tanks. Then if the oil at the terminus is loaded on board tank ship or on on board barges, or into tank cars or tank trucks, there is a charge for the terminalling service.

Q That would be an additional charge over the trunk line rate?

A Yes. In other words the movement of the oil from its point of origin until it is delivered to the consignee, is usually divided into three rates, which are published, the gathering rate, the trunk line rate and the terminalling rate.

Q Now is it the common practice as well that the gathering and trunk line rate might be included in one rate?

A They can be. There are a few districts where that is done. In some states. No interstate rate though is included. In the United States, the Interstate Commerce Commission requires establishment of gathering rates separate from the trunkline rate.

Q That does not apply where it is all in one state, necessarily?

A In some states it does apply and in others it does not.

Q Then I gather from you that there is either a joint rate to include gathering and trunk line deliveries, or that may be divided into two, according to the situation?

A That is correct. There is no need to divide in two if it is not likely that anyone wants to perform the gathering service only or wants to perform the trunk line service only. In that case there is really no need of having two rates.

Q There is only one exception, where a person might want to take delivery at the end of the gathering system that a separate rate might be necessary?

A That is right.

Q Then you state , Mr. Hull, it is the usual practice for the pipe line company to make deliveries to the refinery storage or the consignees' storage at the regular trunk line rate, without additional charge?

A Unless extra pumping service is performed at the terminal.

Q But where there is no additional pumping one rate is inclusive?

A That is right.

Q Then an additional charge for additional services such as loading into tank cars, tank trucks or other vessels?

A That is correct.

Q Is that a pretty well uniform practice in the States?

A I think so . I would say that it is.

Q Would you give me your views on the practice, what the general practice is in connection with, we will say, the installation and financing of the branch lines

from the main trunk line to refinery. Does the pipe line company do that or who does, or what is the practice?

A Well the practice varies. There are no regulations in any of the states, nor is there any interstate regulation requiring a pipe line company or carrier to instal at its expense any special delivery facilities needed for making delivery to the consignee. It is the practice, however, for the pipe line companies to lay such branch lines as may be necessary to make deliveries at its expense.

Q The pipe line company's expense?

A The pipe line company's expense, to make deliveries into the consignees'tanks. The pipe line companies usually require the consignee to either lay the line and then they agree to buy it by paying for it in instalments, or require the consignee to furnish a bond or some other guarantee that there will be enough tonnage moved through that branch line to justify its installation, and to make it a financially sound investment. Naturally the pipe line company is not going to incur any considerable expense in branch lines when they have no assurance of moving enough oil through the lines to justify the installation costs.

Q I gather from that it is left with the pipe line company in its discretion to say as to whether the branch line is built by the pipe line company without further question or on some terms that are arranged by private agreement?

A That is correct.

Q Would you just give me a few of the factors that might be taken into consideration, or give me an illustration of where it might be proper to build a pipe line connection

to a refinery without any guarantees or otherwise?

A Well suppose you had an empty pipe line and a man was building a refinery right there and he says "If you will build me a line into my refinery I will give you a lot of oil," I do not think that I would go very far in asking him to build a line. I would probably say "I will be in there tomorrow with it."

Q In other words.....

A That is an extreme example.

Q In other words it is what is good business?

A That is correct. When it is good business a carrier will build a line right up to the tank.

Q We will assume there is a case arises where maybe a pipe line company is doubtful about it being good business, yet the refinery wishes the service. Just how might that situation be dealt with?

A There is half a dozen ways it can be done. As I mentioned a little while ago the shipper or the carrier would determine about how much oil would be moved to justify the pipe line company to incur the investment. Then if the refiner has no way of guaranteeing that tonnage would move, and the pipe line company is not satisfied that the refiner is going to move the oil, or can move it, the pipe line company will then either require the refiner to guarantee in some way that they would pay for the line in the event that they moved only a small quantity of oil, or not enough oil to justify it, or they might require the refiner to build a line himself and agree to purchase it, either purchase it on months or years in instalments. In that way the pipe line company would guarantee itself sufficient tonnage to warrant the

investment in the delivery facilities.

Q In connection with the re-purchase, is there any suggestion you have of what might be a fair rate to re-purchase? Is it according to through-put, or so much set arbitrarily each month?

A Well that varies. It varies with the circumstances altogether. It might be when the movement started the pipe line company and everyone else would agree that there was no way to give an assurance enough oil would move through the line to make it pay out, but within a few months the refiner might increase his business, or he might improve his financial status to the point where the pipe line company was certain he would later move enough oil to justify their investment in the delivery facilities, and in that case they would probably put an end to it right there. Wind it up.

Q Buy it out?

A Buy it out.

Q Otherwise it might be at so much a barrel basis?

A That is right.

Q It might be re-purchased on so much a barrel basis?

A Yes, that is right.

Q What is the practice, Mr. Hull, in connection with which company operates these branch lines or delivery lines, whether it is the consignee or the pipe line company?

A The general practice is for the pipe line company to be responsible for the crude oil until it is delivered into the consignees' tank. In order to assume that responsibility it is usually preferred by the pipe line company that they operate the facilities right up to the delivery tank. For instance in case of a leak or a break

in the line, if the pipe line company does not operate, does not own or operate the delivery line, there is always a question involved of who is responsible for the break or leak, and who is going to repair it and who is going to stand the loss. Whereas, if the pipe line company operates right up to the tank, then there is a clear-cut issue. There is no question then but the pipe line is responsible for the oil till it gets into the tank.

Q You say that is the general practice?

A That is the general practice.

Q And you think it is the proper practice?

A Yes sir.

Q And the most efficient?

A Well I think it is the most efficient. I would say it is the most satisfactory.

Q Now that would be more so if it meant there was only one public utility handling all lines rather than one main trunk line operated by one public utility and each branch line by a separate one. That would complicate matters in your opinion?

A Yes, that would complicate it, if there are more than one engaged in the operations, why there is always a question arises when there is a loss of oil or breakage or leaks or something like that occurs. It is difficult to determine which utility is responsible.

Q So it has developed to be a somewhat uniform practice throughout the fields you operate in, that the one utility makes delivery right to the refiner's storage?

A Well, that is where, that is true where the pipe lines are reasonably close to the point of delivery. But you

[illegible]

understand carriers have joint transportation arrangements similar to the joint arrangements between railroads, where you ship your freight a good many miles by one railroad then it might be picked up by another railroad. But you had reference only to.....

Q A little branch.

A To a particular district where the pipe line had a terminus, is that right?

Q Yes, just what you might call deliveries in the vicinity of the terminus of the pipe line or along the route of the pipe line?

A Well it is general in that situation for the carrier to operate his own delivery facilities right into the consignees' tank.

Q Now, in connection with the delivery facilities or lines into the consignees' tanks, what is the usual practice as to where the line terminates? Is it at the boundary line or at the tank?

A Well that varies. It might be either. It is more or less - the boundary line of the consignees' property is acceptable to if that satisfies the shipper or consignee, that is acceptable in most cases to the pipe line company. On the other hand there are a number of pipe line companies prefer to run their lines right up to and connect to the consignees' tanks.

Q Just tell me why that might be the case, why they wish to do that?

A Well, if they did not connect to the consignees' tanks they must then of necessity connect to some part of the consignees' pipe line system, within his plant and due to causes beyond the consignees' control there might be

some reason it is impossible to measure exactly the stream, I mean to determine that all the oil that entered the consignees' premises went into any particular tank. There might be a number of leaky valves on there that the consignee did not know anything about. So on account of the fact that some shortage in oil might develop which cannot be determined, if the pipe line companies' delivery facilities are connected into the piping end, and operated for other purposes by the consignee, well for that reason the pipe line company prefers in most cases to connect its own lines to the consignee's tanks.

Q In your experience you have found that in most cases preferable?

A Most satisfactory to all parties concerned.

Q MR. PLOTKINS. One question I would like to ask. What is the customary area at the terminus of the pipeline as to how it is considered a delivery area, or is there any particular rule?

A There is no particular, no generally accepted area. I will have to give you a few examples. The Chicago area takes in all the way from Lockport, Illinois, all the way around to East Chicago, Indiana, a distance of about 35 miles in the extreme from one point to the other. The St. Louis area runs from Wood River, Illinois, clear down to below East St. Louis. That is about 25 miles. The Fort Worth area, I imagine all the refineries are within a radius of about 5 miles. The Dallas area is about the same thing. In the Port Arthur, Dome Oil area, the rates are the same on ll charges to the deep water termini and that distance from the extreme Northerly

refinery Beaumont to the one to at Sabine, is about 30 miles. So you see you cannot make a general rule. In Houston it runs all the way from Houston down to the Galveston Bay, a distance of about 35 miles, or 30 miles perhaps. Texas City, I should say a radius of 2 miles would take in all the refineries in Texas City. Corpus Christi the same. In those areas any of the main trunk lines having facilities terminating within those refining areas in most cases they have their delivery lines to each refinery to which they deliver oil. I say in most cases. There are a few exceptions.

Q What are the reasons for the exceptions?

A Well because, perhaps, another let us say, refiner or rather pipe line terminated at Beaumont, and wants to make delivery for a short period of time to a refinery at Port Arthur, a distance of 20 miles say. He would much prefer to make a joint arrangement with some other pipe line company who has in existence a line running from Beaumont to Port Arthur, and pay him for the use of his line than he would to incur the expense of a delivery line down to Port Arthur. You understand, of course, most of the rates, they are the same, the rates from common points to Beaumont and Port Arthur being the same,

Q Am I to understand then that the original carrier owning a trunk line would make arrangements with another carrier, that is in a position to deliver to Beaumont?

A To Port Arthur.

Q At the same rate?

A That is right.

Q There is an interchange of facilities to competitive points?

A Just to give you a single instance of another case where the pipe line company has a main line passing within about two miles of a refinery at which they want to make some deliveries instead of laying that two miles of pipe over there they operated or they rented a water line, that was one time used for pumping water, from the consignee by the way. The consignee owns that water line. But they were not using it so they rented that water line from the consignee and pay them a modest amount, I do not know what it is, $100.00 a month or something or another for the use of the water line to make delivery into the plant.

Q So that by that fact we can say that the carrier considers it an obligation on his part to deliver oil to the refiner when the refinery is located within a reasonable distance?

A That is accepted in the States by most pipe line companies, yes sir.

Q Now you are generally familiar with the Royalite's system and the refinery situation in Calgary?

A Yes sir.

Q Would you consider, or what would you consider in view of the conditions that exist in Calgary, the volume of oil that is going through the Turner Valley pipe line to Calgary, what would you consider a reasonable distance to expect the pipe line company to pipe to a refinery at an all-inclusive rate?

A Well I do not think there are at present any refineries in Calgary that are too far from the pipe line to justify the pipe line company owning the facilities right up to the consignee's tanks, provided the consignee wants to move enough oil and will move enough oil in there to justify the

branch line. That is the whole essence of the matter. It is the amount of oil that is to be moved.

Q How long would you consider, Mr. Hull, that - how much volume would you consider would be necessary to justify a trunk line investment in a delivery line in the form of how long would you expect it to pay for itself?

A Oh, I would say that is a pretty tough one, that question. You have not got enough factors in there to work that out.

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Q Well, would you say that there was sufficient oil in sight if that refinery could see sufficient oil to be moved that would pay for that line by practically the holdings in three years or two years or one year, that that would be the basis for the investment by the trunkline, by the pipeline company?

A Well, I would say this, that if the refinery can give the pipeline company assurance in some way that in a period of three to four years he would transport and pay for the transportation of enough oil to yield a net profit that would pay for the pipeline facilities then, at the rate in effect, when the oil was moved, I would say it would be reasonable then.

Q What do you mean by "enough"?

A I mean the investment would be a reasonable investment for the pipeline company.

Q Well, am I to understand that you mean the full rate applied to the delivery to that particular refinery over a period of three or four years?

A No, let us say the rate is 20 cents a barrel and the profit is, let us say 5 cents a barrel-----

Q Yes?

A If 5 cents a barrel multiplied by the number of barrels handled in three or four years will pay for that pipeline, I will say it is a reasonable and equitable investment for the pipeline company; the difficulty comes in the refinery being able to satisfy the pipeline company and assure him that that oil is going to move.

Q That is true; now, in your experience as a manager of a number of these different lines, what is the

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customary minimum delivery that the pipelines usually make to their consignees?

A Well, that varies widely; some pipelines will not accept a movement of less than 100,000 barrels; others will accept movements as small as 500 barrels. I doubt if any pipeline, no matter how small, will undertake to move less than 500 barrels of oil for anyone.

Q Now, coming back, applying that particular principle to this Royalite pipeline system, 32 miles of trunkline, gathering system, with transportation approximately 6,000,000 barrels a year, supplying 3 refineries in Calgary, loading tank cars, at for approximately one-third of the five or six million or less, we will say a quarter, what, under the circumstances, if you are sufficiently familiar with them, would you say would be reasonable to expect a pipeline company to make insofar as deliveries, that is the minimum you would expect them to make, having all those factors in view?

A You mean in dollars per day?

Q Any one delivery?

A What is that?

Q The minimum delivery, I might be a little more specific, the Royalite Pipeline company has proposed 3,000 barrels as the minimum of any one delivery, and I want to know if that is reasonable in view of the circumstances, or if it is not in the light of your experience?

A I would say that is reasonable.

Q That is reasonable?

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A Yes.

Q You figure that a refinery that could not accept any smaller deliveries than that at any one time should not be given service?

A You mean larger deliveries, don't you?

Q Smaller deliveries; you see, in Montana the practice is 500 barrels under the same conditions, and here it is proposed to establish 3,000 barrels as the minimum, and I want to get your views?

A I think 3,000 barrels as a minimum of the delivery from the pipeline company to the consignee is reasonable, because if they were smaller it would require, possibly the pipeline company would have to keep certain men over there to keep gauging the tanks every hour,and if they had to do that there would not be very much profit in handling the oil, so for that reason they require to make deliveries in larger quantities, and I do not think that 3,000 barrels as a single delivery is unreasonable at all, as a requirement by the pipeline company. It would not be unreasonable if the refinery were handling 3,000 barrels a day, - whether it is a small refinery, if the refinery was handling two or three hundred barrels a day, he still ought to have enough tankage so the pipeline company could deliver him, oh, 3,000 barrels, that is not too much as a requirement in a refinery, I do not think in the way of crude tankage. If he has not more tankage than that to hold crude I do not see how he can get along very well, that is only 6 days' supply.

Q 6 days' supply for what?

A At 500 barrels a day, 3,000 barrels is only 6 days' supply for him.

Q But you stated before in your evidence that for practical purposes it required two tanks?

A That is all right, 2-1500 barrel tanks, that is all right.

Q That would have to be pumping one after the other for every pumping?

A They would have to switch from one to the other after it gets empty, similarly the pipeline when it finishes, when it fills one will have to switch over and fill the other one.

Q Now, what is the custom-----

Q MAJOR LIPSETT: Does that mean that he would have to exhaust all the oil in both tanks before he could commence to take delivery?

A Oh, no.

Q How could you get 3,000 into 2-1500 barrel tanks?

A All right, you would have to have one, supposing one tank was down to about 1,000 barrels left?

Q Yes.

A The other tank is empty?

Q Yes?

A The pipeline would fill up the empty tank with 1500 barrels, the refiner would then be full again with 1,000, which is left in the empty tank, I do not say he should get 1500 barrels down to the bottom, there is always going to be a little at the bottom, all right, just as soon as the pipeline company fills the No. 1 tank he switches over into No. 2, and the refiner begins

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to charge his stills out of the No. 1 taken, and the pipeline company fills up No. 2 with the other 1500 barrels. I said 1500, you can make it almost any amount you want, 2,000 barrels, but I think I mentioned once before that I thought it only reasonable that each consignee should have crude tanks, the minimum available, I mean crude tankage available to hold at least a week's maximum consumption, for refinery.

(Page 6727 follows.)

Suppose that refinery takes up to 1,000 barrels a day in the middle of summer, I would say then he ought to have about 7 or 8 thousand barrels in his crude tank.

Q MR. PLOTKINS: . Now Mr. Hull, in connection with deliveries to the refineries in the gathering field, that is in the gathering area, what is the practice, the general practice, having in mind again the conditions which exist here in Turner Valley and Calgary, you see we have two refineries located in Turner Valley?

A In the field.

Q At the present time their position is very insecure?

A Yes.

Q There is no established basis for the right to deliver oil to them and I was just wanting to get your opinion and your views?

A You want to know what service those two refineries can expect from the pipeline company?

Q That is correct in the way of crude oil requirements?

A I would have to know a little more about their location, if they were close enough to the pipeline company's terminals or main pumping station, to receive that oil without any considerable expense in a delivery line to serve them, I should think that the pipeline company could afford to gather their oil for them and deliver that in the field at a somewhat lesser rate than to deliver it here in Calgary, but again that is something for the pipeline company to figure out; I do not know anything about their costs without more knowledge of details.

Q The situation that actually exists in Turner Valley at the present time is that these two refineries are located within a half a mile of the pumping, or of the sub-station?

A Yes.

Q And they are under the difficulty that exists in Turner Valley, they are unable to make direct connections to the well, so they have to purchase their oil from the pipeline company?

A Yes.

Q And the pipeline company naturally says "we will make deliveries from our sub-station in the field"?

A Make what?

Q Make deliveries of crude oil, the pipeline company from the sub-station in the field to the refineries?

A Yes.

Q And the distance is under a half a mile and I just wanted to know under those conditions if you had a similar condition in any one of your pipeline companies, and what would be a reasonable rate and the conditions of delivery?

A Well that is a pretty hard question for me to answer, I do not know whether I can say, I have not a similar condition.

Q You have not a similar condition?

A No.

Q HAs the condition which exists between you as the transporter and your customers, in all of your connections, the same as exists between the Royalite here and the Imperial, where they are both producers, transporters and users of oil, that is where they compete directly with the people who supply oil?

A I do not think we have, or at least I know, I am not connected with any pipeline enterprise that either buys or sells any oil; we are not purchasers nor sellers. We have no oil. We are engaged solely in the transportation and gathering of the crude oil.

Q So your main interest is to get as much transportation as pos-

sible at a profit?

A That is correct, so long as it is a legitimately produced oil.

Q Of course?

A We know of a number of cases where there is lots of transportation available if, from oil that we have reason to believe was not legitimately produced and we do not want any oil of that kind.

Q But assuming the oil is legitimately produced and an article of commerce, and within your gathering system, you promote as much business as possible with relation to the marketing or the producing end?

A That is true, if there is room in the pipeline to shove it in there; sometimes the line is full of oil.

Q In other words, you are not interested-----

A No, not interested in anything except transportation and that is the usual case in our country, that the most of the carriers are interested solely in the transporation of oil.

TO MR. NOLAN:

Q Mr. Hull, there are one or two questions I would like to ask if I may. Something was said here the other day about what is called "working storage" or "Emergency storage", I represent the Royalite and the Imperial Oil Company?

A Yes.

Q And in the evidence given a day or two ago we were discussing terminal storage, nothing to do with loading tank trucks or tank cars, nothing except terminal storage and it was suggested that it might be necessary for a pipeline company to have a working amount of storage at its terminal, do you agree with that or do you not?

A If the pipeline company's function is merely and solely the transporation of crude oil from its point of origin to the consignee and the consignee has adequate tanks of his own to take care, to receive deliveries of a quantity that would last him for a week-----

Q Yes?

A I see no need for the pipeline company to maintain any terminal storage of its own.

Q Some suggestion was made that there might be a shut-down at the refinery for some extraordinary cause, that they couldn't take any more oil for some few days or on the other hand there might be a break-down in the pipe trunk-line itself, do those reasons find favour in your eyes or do you still think there should be no terminal storage if the pipeline serving the refinery is wrecked?

A No, I think that is a responsibility of the refiner. If he wants to shut down his refinery he should have enough empty tanks in which to receive his oil and care for it until he is ready to start operating again, and that should not be a burden of the pipeline company to carry that oil while he is shut down. As a matter of fact what I have testified to here, before, our minimum requirements in each case and in which I said I thought as a minimum each consignee ought to have sufficient tankage at his refinery to care of his deliveries for a week; in other words his maximum consumption for a week. Now if he has that I do not think that the pipeline company needs any terminal tankage.

Q I wanted to get your views clear on that?

A Yes.

Q You say that it doesn't matter whether the emergency arises in the refinery or in the trunk-line of the pipeline

company, that this one week's maximum supplies should take care of that situation?

A Yes I think so. Now if there is an interruption in the refinery operation, of course the refiner should take care of that with his own tank.

Q I think I follow you. Now in estimating this amount of storage which might be used for loading tank cars and tank trucks only?

A Yes.

Q And that is what you have limited these pipeline operations to?

A Yes.

Q Is it sufficient only to take the week's maximum or do you have to have some more barrels of storage in addition to that, what I am getting at is this, someone has said that you did not use, I think it is the top and the bottom of these tanks, I think they went so far as to say that only about 20% could be utilized of the capacity of the storage?

MR. FRAWLEY: 80%.

Q MR. NOLAN: 80% of the storage could be utilized?

A That is probably right and I should qualify my remarks by saying "dependable capacity" or "usable capacity".

Q Yes?

A If you are going to have a tank half full of water or non-merchantable oil which is dead storage, why that is, that takes away, that reacts against your dependable room, as we call it.

Q Take the dependable room, if it is about 80% of the total capacity, the usable capacity?

A I would say it is. Some old fields where a good many working tanks have not been cleaned out in a good many days, sometimes

it is less than 80% and in others where the tanks are new it would perhaps be more than 80% but 80% would be a fair figure.

Q 80% would be a fair figure?

A Yes.

Q So perhaps if we take one week's maximum supply and add 20% to that, that would give us the storage required for tank cars and tank trucks?

A Let me get that-----

Q If you add 20% to that maximum week's requirement to give you an adequate number of barrels of storage for loading tank cars or tank trucks?

A I would say that would be good practice, yes.

Q To do that?

A In other words if you were loading out 10,000 barrels of oil a week in tank cars and you were designing a suitable terminal to handle that much as the maximum requirements by tank cars I would say that a 12,000 barrel tank or thereabouts would be all that you would need; in fact you can get along with a ten; you don't have to draw the line that closely on it.

Q No?

A But the point is if you have only room at your terminal for about a week's requirements, you can use your pipeline for something else, go back and fill it up in a week and fill it up again in another week;if you have to go into the tanks two or three times a day, your cost of terminalling would be extravagant.

Q Yes. Now you have had little or no experience with loading tank trucks, Mr. Hull have you?

A Very little.

Q You have not come across that and I think you said before it was not ordinarily a function of the pipeline comapny?

A It is not.

Q Is it not a more expensive operation than loading tank cars?

A I would say it is.

Q I understand from the evidence and please correct me if I am wrong, that in order to load tank trucks you would have to pump the oil from the storage tanks of the pipeline company into what is called the loading tank and that from the loading tank the tank truck would be filled?

A Well that is not always necessary but I would say that it is desirable in order to, unless you have got, you are depending on getting your oil in the tank truck itself.

Q Yes?

A Because you will understand in a large tank when you are loading, let us say you have a 12,000 barrel tank, and you go to load 15 barrels out of there into a tank truck, just a small error in gauging would make a difference of a barrel or two and it is difficult to measure out of a large parcel, so then you would have to either measure it in the tank truck itself or have a small tank out of which you could get more accurate gauging.

Q In order to have a smaller loading tank, that would in your opinion be proper practice?

A It would not be----

Q I say it would be the proper practice?

A Oh yes.

Q And that is because of the fact that this oil is loaded into tank trucks in such small quantities?

A Yes.

Q That is the reason for it, is it not?

A Yes.

Q Now I suppose the cost would be added to by reason of the fact that, or perhaps, do you know that it is seasonable up here, that in some seasons of the year there is tank truck loading and in other season there is not?

A Well I do not know just how the tank trucks move.

Q Supposing there is tank truck loading at some season of the year and not at others?

A Yes.

Q The fact that we did not load in tank trucks at some seaons, would again add to the cost, would it not?

A Yes, you would have some costs then to take care of, then, although you didn't add, didn't fill any tank trucks at all, therefore I would say over the entire year you wouldhave to maintain facilities so that you could give the service when you were at your peak; therefore when the loading was shut down you would have some costs left to maintain the facilities.

Q Quite so and you told us that the going rate in the United States was 2½ cents for loading into tank cars?

A That is right.

Q But you cannot tell me the going rate of loading into tank trucks, because there is no loading rate?

A No there is not. I will say that it is customary to charge 2½ cents; many wells are drilled as "wild cat" wells where the cost of hauling fuel to them is quite expensive and they will make an arrangement with some shipper to have the pipe-line company deliver them a few tank trucks of crude merely for fuel to drill "wild cat" wells and the pipeline company usualy charges about 2½ cents a barrel to make those deliveries although I will say this that there is no money in it; the

pipeline company usually loses money on those small transactions.

Q Is it a factor, do you know, whether the losses are greater loading tank trucks than loading tank cars?

A I should think they would be through errors in gauging and through spillage and one thing and another that you cannot help.

Q By the nature of the physical operation?

A Yes, by the nature, it must be more expensive to load tank trucks.

Q And your opinion is, Mr. Hull, that this charge for loading tank cars or tank trucks should not be in the rate, not be in the pipeline rate itself?

A No sir, I think that the rate should, I think there should be an extra charge for loading tank cars or tank trucks.

Q And you think these people should pay for it, who get that service?

A That is right.

Q And that it should be in addition to and separate from the ordinary pipeline charge that we have in this instance for gathering and transporting?

A Yes.

Q Now the rate that is fixed for loading tank cars or tank trucks should take care of this item of loss that we mentioned a few moments ago, should it not?

A Yes.

Q Because there is a loss, is there not, in loading a tank car or a tank truck?

A Yes.

Q So whatever the rate is fixed at, it should take that loss into

consideration?

A Yes.

Q So that the loader does not have to bear that loss himself?

A That is right. If you do not have it in the rate how would the shipper, how could he calculate generally in advance what his losses are going to amount to, if you are going to saddle the loss on the shipper or consignee, he is willing enough to pay the rate but he doesn't want to come along on top of that and have to pay an unknown quantity of the value of the loss.

Q Because we have had some evidence here, Mr. Hull, about a pipeline loss adjustment account, I am talking now about the loss in gathering and transporting?

A Yes.

Q And the evidence is that it is good practice and common practice in the United States to fix that amount at 1%?

A Yes, but the shipper knows that in advance.

Q Quite true, but that rate varied in the States according to the evidence we have here from 1% to some 3% in other States?

A That is quite true.

Q But your point is that the man who is shipping knew in advance what was to be deducted from his for pipeline loss?

A That is right.

Q And it is better to do it in advance than to have some dispute about it after the loss is incurred?

A Well after all, it amounts to only say 1% of the oil; there is some loss, he knows there is going to be some loss, he doesn't know whether it is going to be 1/2 of 1% or 3% and rather than take a chance on having to stand the 3% loss, he

would rather just settle for 1% in the beginning and know what his loss is going to be.

Q Because after all the shipper does not know what the loss is going to be?

A No.

Q It is an uncertain quantity with him too?

A The pipeline company itself doesn't know except in a general way from past experience; there are a lot of losses in the pipeline that they have never been able to find, they are due for instance to gauging, in cold weather the paraffin sticks on the inside of the tank, you gauge your tank and you get about 100 barrels out of there but there may be 3/8th of an inch of paraffin sticking in there, you do not get 100 barrels out of the tank and the pipeline shows up with a loss. "Where did that oil go, boys", and you send a man out along the line and they finally find, we did not even get it, it is the paraffin on the inside.

Q And you know from the evidence here that there is a certain amount of paraffin in this crude which is produced here in this Valley?

A Yes, the losses you speak of have been investigated time and again by commissions in the States and while it is always proven there is some loss they vary widely depending upon how volutile the oil is and how readily the paraffin is disposed to settle out of it in cold weather.

Q And that would depend again upon the climatic conditions of each particular field?

A That is it.

Q You said something about the Inter-state Commcerce Commission, did I understand you to say that there is so far as you know no rule of the Inter-state Commerce Commission

which compels a pipeline company to make such connections as is proposed to be made here with the B. A. Company or with the Lion Oil?

A That is correct.

Q And I also understood that there is no such law which compels such a connection to be made?

A I do not know of one.

Q And when I say "such a law" I mean some sort of order of a regulatory body created under some State law?

A I do not know of any State laws that requires a pipeline company to build at its own expense a delivery line into a refinery.

Q Well then a practice has grown up, Mr. Hull, and I think you said that the pipeline companies do make such connections and they do construct such connecting pipelines up to the refinery's yard or to an adjacent terminal if the pipeline company in its discretion thinks that the expenditure is warranted or that the undertaking is likely to be a profitable one?

A That is correct.

Q Is that a fair summary of the practice which you laid down?

A That is correct.

Q Then the essence of that is that the construction of such a connection or connecting pipelines would be left to a matter of agreement between the parties?

A That is so, that is correct.

Q And that agreement would come to in the light of the particular circumstances of the case and would not be a matter of compulsion?

A That is correct.

Q Now the pipeline company, I think you said would take into

consideration the volume required by the customer?

A That would be a factor.

Q He would take into consideration the financial responsibility of the customer?

A Correct.

Q And also as to whether the rate applicable permitted the performance of this service on a profitable basis?

A Yes.

Q Now I suppose that under the circumstances such as exists here, the question of whether the Royalite Oil Company, that is the pipeline company, furnishes this connection to its trunk-line or whether the refinery which desires this connection should pay the cost of it, depends as to whether the pipeline company is given a sufficient and ample allowance in its rate base to take care of this expenditure, would it not?

A Yes, I would say so.

Q And should that rate base include the cost of installation, of course it should?

A Yes.

Q The cost of the service?

A Yes.

Q The extra costs of gauging?

A Yes.

Q Inspection, that should be included, should it?

A Yes.

Q Eh?

A Certainly.

Q And what else?

THE CHAIRMAN: What do you mean by the base?

A What you mean by base, is the transportation rate from

the point of origin, the Turner Valley pump station we will call it if you want to get specific, to delivery into the consignee's tanks in the Calgary refinery area, is that what you call the base rate?

Q MR. NOLAN: Well what I want to get at is this, if there is to be an additional charge not included in the pipeline gathering and transportation rate allowed to this company, if it is to be in addition to that, how should it be built up?

A Well I think it ought to be included in that one rate to begin with.

Q Yes?

A I do not see any need for an additional rate unless an additional service is performed such as loading tank cars or loading tank trucks.

Q It would not be a new rate but there would be additional allowances in the existing rate base to take care of it, would there not?

A Well it is assumed, I do not know what the Royalite Oil Company may have done in the beginning but the general practice in the United States is that when any pipeline company publishes a rate between any two points----

Q Yes?

A That includes all the services for moving the oil from one point and delivering to the consignee in his tanks at the other point.

Q Yes, that is so?

A If in addition the consignee wants to load it on to tank cars or in barges or in tank ships or in tank trucks, why then there is usually established in the tariff an additional rate for that service.

Q That is the tank cars and tank trucks, I am talking about connecting lines, the cost of those connecting lines should be in, if it is included in the pipeline rate, it should have something for the capital expenditure introduced into the base of that pipeline rate, should it not?

A Well the pipeline company itself should have taken that into consideration when they established the rate or asked permission to prove the rate.

MR. FRAWLEY: You are at cross-purposes. I do not think Mr. Hull realises we are right now in the middle of a rate base. This is a public utility.

A Oh, I thought you were trying to find out what the practice was in our country, or whether the pipeline built its own lines into the refinery or not.

MR. FRAWLEY: No, I thought there was a little confusion between you and Mr. Nolan as to the rate base.

A I do not know what your rate should be, I do not know enough about it, I do not know how much investment you have and lots of others things I do not know.

(Go to number 6742).

[illegible]

[illegible] the core and [illegible] on the [illegible]
connection [illegible]. The cost is alone a [illegible] since [illegible]
be [illegible]. It is included in the pipeline rate, it should
have [illegible]. If the original [illegible] [illegible]
[illegible] pipeline [illegible], should it [illegible]
[illegible] company [illegible] have [illegible] that [illegible]
[illegible] they [illegible] [illegible] to be [illegible]
[illegible] rate.

Q. [illegible]: You see at [illegible]. I [illegible]
[illegible] it. Well [illegible] we are right [illegible] to be [illegible]
[illegible] rate base. This is a [illegible] [illegible].
[illegible], I think you were trying to find out what the [illegible]
[illegible] [illegible]. [illegible] the pipeline built [illegible]
[illegible] [illegible] [illegible].

MR. [illegible]: [illegible], I know it [illegible] [illegible]
[illegible] [illegible] [illegible]. [illegible] as to the [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

([illegible] [illegible] [illegible]).

Q MR. NOLAN: But if there are additional connections made the cost of those connactions should go into the rate-base, should they not?

A I do not know whether I get that question . You mean if you want to change the rate ?

Q Well, never mind, it is of no importance.

A I am sorry, the reason I am confused is because I do not know whether your question is whether you should get a higher rate after you make the connections or whether you want to consider it before those connections, when you establish the rate in the first instance.

Q Supposing the rate were established in the first instance?

A All right.

Q By a regulatory body?

A Yes.

Q And we go on after that rate is established and incur expenditures in connection with a new branch line. Then the rate would be altered to meet those new circumstances, would it not?

A Well, that depends on what the regulatory body had in mind when they established the rate in the first instance.

Q Could it establish a rate in the first instance----

A Suppose the rate says it was for delivery into the consignee's tanks,in the,let us call it the Calgary area.

Q Yes?

A Then later you must extend your facilities to reach

these refineries in the area. I think that eventually that has to be absorbed by the pipeline company as part of its investment. But the Commission could not require you to go ahead and make that investment until you are satisfied you are going to get anough tonnage or enough oil eventually to justify your incurring that expense. It will be a very little amount over a long period of time. The additional cost per barrel is so little you could hardly figure it. Don't you think so?

Q What I want to know from you now, it arises out of your last answer, should the regulatory body in fixing the rate now take into consideration the probabilities of such connections as those being asked for in the future?

A Yes. Because someone may build a new refinery at any time.

Q That is what I mean. Not only those that are there now but there may be another refinery?

A Yes.

Q You say that the present rate should take care of the probable expenditure in serving that refinery yet to be constructed?

A That is right.

Q Then the present rate would also take into consideration service to refineries actually there now?

A That is correct.

Q Then I think we understand one another.

Q MR. COMMISSIONER LIPSETT: You said something, Mr. Hull, about a consignee wanting delivery, under tariffs

in the States, shipping to tank cars or tank trucks?

A Yes.

Q I think you said it was all done under the one rate, to whichever he delivers it, one rate for delivery, either to tank cars or other vessels?

A Well, I might make it clear this way, that most of the tariffs publish the rate for transportation per barrel from one point to the other and delivery into consignees' tanks, which means storage tanks. If, however, the delivery is desired by the consignee into tank cars, barges, tank ships or tank trucks, that should be an additional charge, and the rate is usually 2½ cents per barrel.

Q THE CHAIRMAN: In that case the person who does the loading takes the loss at the rate of 2½ cents?

A The person who does the loading, you say?

Q Yes?

A The pipeline company or the terminal?

Q Yes. I just want to be clear.

THE CHAIRMAN: I want to ask some questions, but I will do it afterwards, if you prefer, Mr. Frawley?

MR. FRAWLEY: Yes, I thought that would be the case.

Q I think I understand most of your points of view which you have put forward, and I appreciate them very much. I understand you to say that there should be about 7 days' storage provided by the pipeline company for to supply tank cars, for the filling of tank cars?

A I would say that is what I would consider good practice. A minimum of 7 days, yes, Sir.

Q So that if the movements for tank car shipments is about 7 cars a day or 49 cars a week then at 240 barrels to the car, which would be a large car, would it not? Then there should be-----

A A 10,000 gallon car.

Q 240 barrels is a big car?

A That is about right, yes, Sir.

Q Then that would mean storage for that purpose of 12,000 barrels, or assuming that only about 80% is effective, there should be then storage of about 15,000 barrels provided for in two tanks, that is your view?

A Well, I do not know whether I can keep up with the arithmetic. However-----

Q If the aritmetic is correct----

A If the arithmetic is correct then that is correct.

Q That is your view?

A Yes.

Q MR. NOLAN: How do you get that?

MR. FRAWLEY: 7 cars a day Mr. Moore says he is moving for people other than himself, or 49 a week, at 240 barrels to the car, that is 12,000 barrels. Or, if as the Imperial suggests, only 80% of that is effective that would require about 15,000 barrels of tankage divided into two tanks?

A They do not necessarily have to be the same size, just so that you can gauge out of one and deliver into the other simultaneously.

Q So that then if the pipeline company was only engaged in the business of filling tank cars, that is all the storage they would need to operate at the terminal end, about 15,000 barrels?

A Well, what would they have in the field, what is the facilities down in the field?

Q In the field they have 120,000 barrels?

A Well, then, they would have plenty.

Q Well, now, you said that, I rather gathered, I may have been a little confused, but in answering Mr. Harvie for the British American Company, you, I rather thought, said the Royalite Company as the pipeline company would have to make some arrangements with a refinery which has the tankage and loading facilities.

A I meant to imply if the Royalite Company has no terminal or loading facilities of their own and there is a demand on the part of shippers for loading on board tank cars or tank trucks, that I believe the Royalite Company could do it more economically by making an arrangement with one of the refineries, to which it makes deliveries, than they could maintain independently a terminal of their own.

Q Yes. I quite see what you mean. But a very simple alternative would be to have the refinery do it itself?

A That is right.

Q So that the Royalite Company need not concern itself if it has no loading rack, no loading spouts or nothing of that sort, it need not concern itself or worry about the business of filling tank cars at all, would not that be your suggestion?

A Not if one of the refineries is willing to undertake the work.

Q So if one of the refineries-----

A One of the refineries might want to do that. But if they do not want to I do not see why it should be forced to.

Q Just to keep you clear, and not to leave you too much in the dark about these things. But if the loading racks of this refinery, of one of the refineries is called a public utility with the trunkline and gathering system of the Royalite, of course, that solves the whole matter, does it not?

A Now, you are asking----I do not know much about this public utility.

Q That is trrue. I only put that to you because you said you did not see why a refinery should be forced to do it. Why should the Royalite Oil Company be forced to do it? Why should anyone be forced to do it?

A Well, a refiner has just to refine his own oil, and you do not make him load someone else's oil for it. He has quite a job on his hands.

Q All I am suggesting is, suppose I am a refiner in Saskatchewan and I come to Calgary to buy oil, and I want to take it away in tank cars. I come to Calgary because it has already been taken through the pipeline. Is there any reason why I should not go to the Imperial Oil that has complete loading facilities, and the Royalite Company has none. What are your views? What would be the simple way to give me service?

A There is no reason why you should not go and ask them to do it.

Q The Imperial Oil?

A Yes.

Q That has loading facilities there. If they do not want to do it then that is something else?

A Yes.

Q There would be no sense, of course, in the Royalite duplicating those loading facilities with the Imperial Oil Company?

A It is unnecessary.

Q You say the customary rate there is 2½ cents a barrel. The note I made when you first made that statement was that that covered storage and loading into cars, into tank cars into cargoes or into tank cars or into tank trucks?

A That is right.

Q And that 2½ cents provides the money to maintain whatever storage is necessarily incidental to those loading operations?

A Yes. When you mean incidental that is on the understanding that the shippers can take their oil away so it won't accumulate more than a week's supply at a time, or possibly two weeks at the very most. In other words, if shippers want to accumulate oil for a period of four or five months and expect the pipeline company to care for that until he gets ready to ship it out in tank cars, that is another question.

Q But eliminating these extraordinary situations, you think the 2½ cents should cover everything?

A Yes. That is what it does in the States anyway.

Q Then I rather thought, in answering Mr. Nolan, counsel for the Imperial Company, you thought probably there was

some additional expense involved in loading into tank trucks?

A Well, I mean to bring out the point that I am sure that it costs more money to load oil into tank trucks in the terminal than it does into tank cars.

Q At first you said it could be done for the same price. How far would you care - if you now think you should increase that 2½ cents, how far would you go?

A Well, I got the impression that truck loading would be a considerable figure, that you are loading a good many trucks, and it was a regular business, loading trucks.

Q No, I do not think you can gather that. I think you would have to accept that the tank truck movement is, perhaps, quite small.

THE CHAIRMAN: What is Mr. Coultis' evidence on that?

MR. FRAWLEY: 100 barrels a day is all they contemplate looking after.

A Well, it will cost more. It will cost more to load into tank trucks, but you are getting down into small fractions. And when the rate is only 2½ cents you can hardly get down to splitting hairs to find out what the rate should be.

Q Just a few more decimal points to add to the 2½ cents?

A Yes.

Q Would you care to risk a figure?

A No, I would not want to risk any guess at how much more it might cost. It is a matter of how often the trucks came in to take the oil and whether they are going to

be there when the shipper said he was going to be there, or whether you are going to hold the crew there all night waiting for the trucks to come in.

Q But assuming normal conditions and that it is a seasonal movement. No movement at all in the Winter time.

A All right, what are you going to do with the oil in the Winter time, ask the pipeline company to hold it in their system, I mean the man who wants it loaded in trucks?

Q But he does not take any. There is no accumulation of oil?

A Oh, he is just buying the oil?

Q First of all, the field is under pro-ration?

A Yes, it is pro-rated. Yes.

Q There is no accumulation?

A I see, no accumulation.

Q I think you can take that for the purposes of your answers here. The refiner knows there are going to be no calls for the trucks then?

A It is going to cost a little more to load tank trucks than tank cars.

Q How much? That is what I would like to get the benefit of your views on?

A You are getting down to fractions of cents, and it is a little difficult.

Q We will leave it, your figure is 2½ cents, at least you say 2½ cents is the fair thing?

A Is the customary rate.

Q In your jurisdiction?

A Yes.

Q You would only add a few decimal points to take care of the tank truck movement?

THE CHAIRMAN: I do not understand him to say he would add anything. He said the operation would be more expensive, but that when it got down to putting any figure, as I gather, it was a negligible thing and that, therefore, and because of that the practice was to cover all these kinds of vessels with the 2½ cent rate. I may be wrong in saying that?

A That is correct, Sir.

Q MR. FRAWLEY: That is your first submission. May we take it and leave it that you say that looked at in a general way 2½ cents is sufficient to cover the movement into tank cars and tank trucks and everything?

A Yes. The terminal loading service. That is customary in the United States.

Q Now, you say that while the movement into tank trucks may be a little more costly you are not suggesting for that reason the rate should be any more than into tank cars?

A I do not want to be put in the position of suggesting rates to anybody. I am only telling you what the practice is in my country.

Q And we want the benefit of your views, Mr. Hull, because that is exactly what this Commission is here for, to fix that rate, or recommend it, in any event?

A I would have to know a little more about the experience in the way tank trucks come in to know. If they turn

out to be a considerable nuisance. It is not so hard when a railroad is going to ship you in a string of tank cars and you can load them and ship them and send your men home. You cannot tell when these trucks are going to come back and be sqawking for a load. You do not want men staying around there all night waiting for tank trucks.

Q All right, and I take it for these reasons you say loading into tank trucks is going to be more costly?

A Yes. It may be considerably more costly. If they came there just as regularly as tank cars do it would not cost a great deal more, not enough more to justify making a higher rate for it, I do not think.

Q In any event, in your jurisdiction, there is no higher rate. One rate looks after it all?

A I said we have loaded very few tank trucks down our way. Just occasionally a man wants a tank truck full. Well, we charge him the 2½ cents. I expect it costs us more than that because it is only one tank truck full.

Q You charge just the same rate as tank cars and other vessels?

A Yes. Now, if I were selling oil and had to lump it all in one price, I would probably ask him a little bit more for that oil to take care of the contingencies in loading that one truck, or half a dozen trucks even.

Q Mr. Hull, the question of who bears the expense of these service lines that Mr. Nolan was asking you about, see if I can ask you a couple of questions to clear it up. The pipeline company is allowed a certain rate to gather and transport to the terminal?

A Yes.

Q That rate being based on the capital they have invested in the system and based upon the operating costs and a reasonable rate of return on the capital investment that the pipeline company has in its system?

A Yes.

Q This system being its gathering lines and its trunk-lines?

A That is right.

Q As the gathering lines are increased from year to year the capital investment must absorb those additional expenditures?

A That is right.

Q And the gathering lines, is there any essential difference between how the pipeline company must handle its investment in----its new investment in gathering lines, and the way it must handle its new investment in service lines to refineries?

A I do not see any difference.

Q The same sort of thing. However, in this rate-base, as we continue to call it, however the Commission deals with the matter of future capital expenditures for gathering lines, they can very properly deal with the matter of future capital expenditure for these service lines to refineries?

A That is right.

Q THE CHAIRMAN: Mr. Hull, you have told us of this 2¼ cents per barrel charge. But you have spoken of other rates that prevail in the United States. You said in some cases there is a gathering rate and a trunk-line rate. In other cases there is one rate for gathering

and trunkline transportation?

A Combined.

Q In the United States, combined, yes. I wonder if you would be good enough to tell us, even as you have told us about the 2½ cents handling rate at the terminal, what your experience is of rates, first, in gathering; secondly, in trunkline transportation, and thirdly, when the two are combined?

A Now, when you ask for experience, Sir, you mean----

Q What is being charged in your country, within your knowledge, as a gathering charge; secondly, the trunkline charge, and thirdly, where the two are combined?

A The majority of the rates are divided into gathering service separate from trunkline service?

Q Yes?

A There are a few instances where they are combined, in local movements in Kansas where the deliveries are purely local, and the oil is not moving as Inter-State commerce, they are usually combined.

Q Yes?

A In Oklahoma they are usually combined. In Texas, I think without any exception, they are separated into gathering service and into trunkline. In Louisiana they are usually combined in one rate, from the operator's lease and either delivered into the consignee's tanks or other vessels. I might say in Louisiana also there are a number of movements where there is no separate charge for loading barges, because Louisiana is mostly a lot of canals and rivers, and I would say 75% of the oil moving down the

coast of Louisiana finds itself in a barge some time or other, and it is combined. The rate, where it is handled by the pipeline company from the operator's lease to the tank, it includes loading into barges. It is usually a few cents per barrel. It is so low it is almost impossible to split the price. The rate is so low down there, 5, 10 or 15 cents a barrel, it is hard to divide between gathering and a trunkline and barge. So they combine the one rate.

Q Where you have a gathering line, what would you say was the prevailing rate?

A Where the gathering service is performed solely as a service.

Q As a company apart?

A As a company apart, it changes from 5 cents a barrel to as high as 15 cents a barrel, depending on the district in which the oil is gathered and the size of the wells, I mean the capacity of the wells. An old field which is enough developed or the flush has been worked off, naturally the lease is less productive and it requires a great deal more piping to reach more leases. To put it another way, there is less oil comes in through the pipe and you must provide to reach that. The result is they are more costly and even at 20 cents a barrel for gathering service there are districts in Oklahoma and Kansas that have been largely developed where 20 cents is an inadequate return, on the remaining, you might say, replacement value of the facilities that is necessary to get the oil. There have been pipeline companies have put through the service and offered to rent their gathering facilities at just a

matter of what the taxes cost to the operator, and if they want to take the pipelines and operate them they can have them. Now, that is 20 cents a barrel. So you can't say what is a general rate for gathering service. It will range anywhere from 5 cents to 20 cents.

Q And transportation?

A Well, that is usually based on quantities.

Q Trunkline ?

A Trunkline, yes. The big factor in that is the quantity of oil moving. The second big factor is the distance to be moved. That is a secondary factor, however, to the quantity, in my judgment, and I think other pipeline companies have had the same experience, that volume is the biggest and the most important factor in cost and rate for trunkline service.

Q Now, before we proceed with that, may I ask you within what area would you say this 5 cents to 20 cents gathering rate was applicable? Within what physical zones?

A You won't find that in any one field. That would be applied to different fields, of course.

Q Yes?

A You take a field that might be only a mile across, either way, and might have right in the middle of it a trunkline and pump station, why I would say a 5 cent gathering rate is adequate there, unless there is a strip of wells pumping two or three barrels a day. Then it would have to be much higher. But you would like to compare something with Turner Valley, wouldn't you?

Q Yes?

A Well, I would say we have any number of fields in the States where the gathering service at 5 cents per barrel is fair and reasonable, acceptable to the shippers, and it seems to be fair enough for the pipeline companies.

Q This would be cases in which the company gathering the oil was a separate company, and would deliver to a transporting company?

A Not always.

Q No, but I mean you are now speaking of that case, gathering as a thing apart, or are you?

A It depends on the volume altogether. If operating were a thing apart it is entirely to do with what oil they gather in Turner Valley and how long they expect to get it, too. A number of pipeline companies in the States have even gone to a heavy expense to provide a gathering service and then the parties who asked for the service in the beginning, that was to their advantage to sell their property, sell their producing property to someone else who wanted to move their oil through another pipeline system and they found themselves with a considerable investment in gathering facilities that never handled any oil at all or very little. Never enough to justify it.

Q Take the conditions we have down here. We have had various estimates of the life of the field, all the way from 15½ years to 36. We are told of a throughput of 6,000,000 barrels per year. You know the geographical situation, I take it?

A Yes.

Q Is there any field comparable with that that we can measure by, at least compare with?

A I do not think you can get one just exactly the same. In New York State we have something similar. Certainly, the productive life is similar to that of Turner Valley. It goes from 25 to 50 years. I do not know, but anyway they estimate that closely.

Q What I am getting at, you are asking for certain figures, and I am telling you some of the figures that were given in evidence. Have you a field in which there are the same uncertainties and yet with the same comparable factors that you can make a comparison with in connection with gathering. Or, if not, with gathering and transporting?

A Yes, I am sure we have some fields in the States that for this purpose could be used as a comparison.

Q And delivering to the consignee without the special handling charges that you are talking about?

A Yes.

Q What are the prevailing rates?

A Well, as I said a while ago, the prevailing rate for gathering service will vary from 5 to 20 cents a barrel. But I cannot say in a field like the Turner Valley, that is comparable to it. With conditions very much the same as in Turner Valley a 5 cent gathering rate is fair, and reasonable for the pipeline lcompany, and, as I said, I believe is acceptable to the shippers as fair and reasonable to them. It is more or less acceptable to them. Of course, they do not know what is fair. They

probably want you to gather for nothing, some of them. For trunkline it appears-----there again you asked me to consider the gathering system as separate and apart.

Q First. Now, I want you to come to the second consideration, that is, where you have the one company gathering and transporting to a distance---what is the distance that we have been given, Mr. Frawley?

MR. FRAWLEY: 31.something miles.

MR. NOLAN: And 3 lines, Mr. Chairman.

THE CHAIRMAN: Yes, 3 lines over and above the gathering system. The oil is transported through 3 lines?

A Yes.

Q Whether that be an advantage or a disadvantage?

A Well, if you were starting from scratch you could probably do a little better. But as happens in all fields, you just have to grow with the field.

Q Quite. Now, can you make any comparison out of your fund of knowledge of the situation in the United States where you have this distance for transportation of oil, for gathering and transporting to your consignee, a distance of 33 miles.

A Yes. I do not know that I can aname a field now, but I am sure we have some that could be compared directly for the purpose of your question with Turner Valley. Turner Valley, as I understand, moves somewhere around 12,000 to 15,000 barrels out of the field on an average, is that right or not?

MR. FRAWLEY: 6,000,000 barrels a year is the figure we have been taking, Mr. Hull?

A That is less then.

Q That is about 15,000 barrels a day?

A Yes. That is pretty close.

Q 16,500?

A We have fields in the States which are handling about that much oil about that distance, or have handled, I do not know whether they are to-day or not. But when they were handling at that rate, I would say that 12½ to 15 cents a barrel for gathering and transportation charges is fair and reasonable. A good many of the Gulf Coast fields for reasons, charge 5 cents for gathering service, because if you get below 5 cents it is a little difficult to find out where the line between profit and loss lies. But to gather, I am sure, costs less than it does in the Turner Valley, in those fields, I am referring now to some of our Gulf Coast fields that are not more than a mile or a mile and a half across either way. Production from a very large lease is probably higher than it is from Turner Valley.

Q THE CHAIRMAN: The figure you are giving us, contemplates the gathering of the oil by gathering lines and transporting it and placing it in the tanks of the consignees?

A That is right. And it means that that is about what the rate would be in the United States for that service.

Q Something has been said about it being left, as a rule, in the practice of the pipeline companies in the United States for them to determine as to whether or not it

would be profitable for them to make the connection for the carriage of oil to refineries or to other consignees. It is a matter of voluntary arrangement?

A Yes, Sir.

Q Have you had any experience where one of the persons or corporations who is a carrier was, on the other end, controlled by the refinery?

A Oh, yes.

Q Who is in competition with the refineries that were seeking connections?

A Yes, that is quite frequent in the States. The pipeline company or carrier is operated through ownership or directly owned by the refinery. It is his principal patron from whom it gets most of its volume of oil. I have not heard yet of a failure to come to some satisfactory arrangement between the shipper and the carrier for deliveries of oil when he had oil in the field and it was ultimately produced. I do not know of an instance. As a matter of fact, I do not know of a complaint that there was reason for a Commission on that account. There is not much a Commission could do about it. There is no law or ruling that forces a pipeline company to furnish delivery facilities into a refiner's plant. But a Commission can bring some pressure on the refiner - or I mean on the pipeline company if there should be any complaint. But I do not know of any complaint, offhand, having been filed. I never heard of it.

Q It would be strange, however, if the other refinery were willing to make the connection and their right to get their oil at all would be determined by an opposing or

a competing refinery?

A Well, that is something I have not heard of either.

Q Now, there was also a point made by Mr. Nolan to you, or by you in the course of examination by Mr. Nolan, about a refinery, perhaps not being required to make deliveries into tank waggons or tank trucks. Have you ever heard of a case in which the transporting company delivered oil into the tanks of a refinery without any means of getting it out to its customers?

A Well, it does not deliver any oil into the tanks of a refinery unless the oil belongs to them.

Q But, you see, we have, and I do not suggest improperly, integrated companies here, and if oil of the transporting company is delivered into the tanks rented from the refinery company, pumping out of which is not provided for except through the machinery of the refining company, then would you think there was some reason for requiring the refining company to perform the service?

A No. If they are equipped to load tank cars. I think there is good reason for not requiring the refinery to do it because if we are going to require anybody to do it we should require the pipeline company to do it and not the refinery. Now, then, if the pipeline company has no facilities-----

Q You see, it was not set up that way. Is it not unusual for a pipeline company who is transporting oil, for it not to provide itself with means to deliver as well as gather?

A No, Sir. It is not unusual. Not in our country.

A No sir, it is not unusual.

Q It is not?

A No sir, not in our country. The pipeline company in our country usually have no delivery facilities.

Q When they come to the end of their line what happens?

A The tariff prescribed that they will receive oil only for loading into shipper's tankage or tank cars or tank vessels at point of delivery.

Q Into shippers?

A Yes, into the shippers or the consignees, whichever one calls, it doesn't imply that the pipeline company must own any kind of facilities for receiving the oil at the point of delivery; that is the shipper's responsibility or the consignee's responsibility; in fact the pipeline company does not have to ship until he is assured, until he has assurance that the facilities are ready to receive the oil. There are no loading racks down there and no tankage adequate to handle to the loading rack, I do not know anywhere that the pipeline company should be in our country required to provide those loading facilities; if someone had no tankage or anything else to receive the oil and they did not want to invest in tankage and loading facilities of their own and would prefer to have the pipeline company do it, I think it is a matter of trading it out with them, no more than someone might want it loaded into tank trucks for that matter. That applies just as well as tank cars. It is a matter, it would be in our country, to be worked out between the shipper and the pipeline company and it has always been worked out satisfactorily so far as I know.

Q Then you deliver to the consignee in whatever vessel he wants to take it?

A That is right. Now then if he wants to provide some way so that he can get it in tank cars and we were willing to do that, then that is o.k.

Q What is your own experience in all your lines, what are you doing?

A We are not loading into tank cars anywhere.

Q And of course not into tank trucks then?

A I would like to qualify that with that one exception, at one point the oil is of such quality that it does not need to go to the refinery, the crude oil is suitable for deisel engines and one shipper has arranged with us to load some tank cars with his crude at one intermediate point where he sells to deisel engines for fuel, in some large large deisel engines, and we charge him 2½ cents a barrel for loading facilities and he, he just told us what he wanted and we put in the loading facilities; now in tank trucks, the only way we do as I mentioned awhile ago, is occasionally some shipper will ask us as a matter of accommodation to load a few tank trucks somewhere, some driller under contract who is drilling a "wild cat" well, to use his fuel in his boiler. It is not profitable for us but we do it, he may bring in a new field and we may get oil out of that, get business, so we look at it as good business then, if we do not make anything out of it; in the case of loading tank ships we have one or two points where we have facilities for loading tank ships; in all others we usually find it more economical to work out for the shipper an arrangement with some existing terminal or refinery to load the tank ships; the shipper can either make his own arrangement or if he wants us to, we will make it for him with someone who has a terminal ; there is not much profit in that, although there is a little in it for someone who is conducting another business in addition to the terminal;

for instance a refinery, they have a nearby deep water where they can load tank ships, and if they have why they can load it on the car rate of 2½ cents a barrel and it is profitable to them, where if we had the terminal and only had that to do we would not really make any money out of it at all; does that answer your question or have I gone too far with it?

Q No, it is all very interesting. Now coming to concrete things, you say you have a thousand miles of trunk-lines in the Texas Empire Pipeline Company?

A Yes.

Q What rate are you getting there for transporting oil?

A Well from points in Oklahoma and Kansas, points of receipt in Oklahoma and Kansas and there are three or four to the Chicago area, we get, the rate is 34½ cents a barrel, that is a distance of about 700 or 800 miles, I would say 700 miles, but as I told you awhile ago the big factor in rates is volume and we have a large volume, 90,000 barrels a day so that I would say that is a very favourable movement for a pipeline company, a large volume and a steady movement by shippers who have a large amount of oil that they own in the field and they consume large quantities at the delivery end, so that it is there.

Q Have you any short lines?

A Yes we have.

Q Such as this one?

A Yes.

Q Under your personal control?

A Yes.

Q Which one?

A Well we have, they belong to different companies.

Q Yes.

A We have mostly in Louisiana short lines belonging to the Texas Pipeline Company and we have one just exactly, almost the same length as this Turner Valley line, the only thing is gathering conditions are different in the field and less costly and the quantities however, they are fractions of what you get up here at Turner Valley, there was a time-----

Q Gathering is less costly and the volume not so great?

A No, that is for the trunk-lines?

Q What are you getting there?

A We are getting 5 cents for gathering and we are getting 7½ cents for trunk-lines; at one time that was yielding us a profit but it doesn't any more, we are at a loss now because the volume has dropped off.

Q What is the volume?

A Oh the volume is down to about 4500 barrels now.

Q MR. FRAWLEY: A day?

A The next question which arises in your mind is why don't we raise our rate if we are not making money out of it and it is because we made a whole lot of money out of that same shipper some years ago and we think that we will quit before long or sell out and we will not have to go to the Commission and argue for a new rate, we would have to argue about it before we would get a new rate.

Q MAJOR LIPSETT: Is that argument due to the fact that you have made a lot of money out of the shipper in the past?

A No, I say that is one reason that we hesitate about going down and making that shipper give us a higher rate now; another thing, they may have a lot of oil to ship somewhere else too and we don't want to lose that shipper.

Q THE CHAIRMAN: Then the two rates are fixed separately by the regulatory body, the gathering rate and the

transportation rate?

A It is not fixed and also in the Interstate Commerce-----

Q The one you were last speaking about?

A No, in Louisiana that is the Corporation Commission, the Louisiana Corporation Commission and they do not require---

Q I think you said 5 and 7½?

A Yes,but that is voluntary on our part, there is another pipeline company there that has a line through the field and some shippers might want some of their oil gathered only and delivered into these other pipeline company's facilities; therefore we have two rates there or rather separately so we can perform the gathering service only if the shipper wants it.

Q I see, now have you any instances in connection with your lines where you have the one rate for gathering and transporting with a comparable throughput?

A I cannot answer that, now sir. I would have to analyze some of our shipments and some of our points that are more or less isolated and get,- I would call this Turner Valley in one of our systems down there a more or less of an isolated system, standing out by itself and we may have some, like that one I mentioned in Louisiana, it is in connection with another place, the oil is moved and we have something but I cannot, I do not believe I can from my recollection cite you any other that is closely parallel at the moment to Turner Valley.

Q That is the nearest you can come?

A Yes, that is the nearest I can think of right at the moment.

Q And you think the operation is more costly to the pipeline company than it would be here?

A It is now. If we had that much volume as in Turner Valley I do not think it would, no, it would not be any more costly than here I do not think, I think it would be less.

Q Have you any compeition there?

A Pardon?

Q Is it a monopoly there or is it competition, in that particular field?

A Yes, we have another gathering system in the field, however, they have not seen fit to gather any oil except for one account, they have not gone out and solicited any other business, they came in after we did too, but they did solicit one account that we handled in the beginning and they moved their oil through another pipeline out of the field, that goes to the same loading terminal but there is not a great deal of, well there is not enough oil there to justify anybody trying to, if they took it all away from us I would be very glad, if they would solicit that and take it and keep it because I am losing money on it right now.

Q Is the field as a whole petering out?

A Yes.

Q That would be a profitable rate if you had----

A A larger volume.

Q If you had 16½ thousand barrels, as we have been talking about?

A Yes, with that amount of oil it would be, we could get a very satisfactory profit out of the rates which we have, which is 5 cents gathering and 7½ cents trunk-line but as I mentioned I believe our operating costs would be less than it is in Turner Valley.

Q For gathering?

A Both for gathering and trunk-lines. We do not have the severe cold weather you have here and while there may be other elements of course that would be higher, however I should not comment on that because I do not know what your costs are up here, I have not had an opportunity of going into that.

Q Climatic conditions possibly would work to the disadvantage of

an Alberta Pipeline Company?

A I would think so.

Q You have been in the pipeline business 34 years I think you said Mr. Hull?

A Yes.

Q You say you have given some consideration to the local situation, do you see any advantage in the three lines in the point of view of service?

A If you get three kinds of oil to handle it would be, three or more. It you only have one it would not be any advantage.

Q There are presently three lines, one of which crude oil only is put through, and another where crude oil is put through from time to time and naphtha is put through at some times, with the resulting degradation as the case may be, can you suggest any reason why there should be at most more than two lines from the point of view of service again.

A Well if you are designing it from the very start I should not see any good reason for it.

Q No reason why there should be more than one, I take it that because one of these lines is used for both now when necessity arises----

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A Well if you are using what you call naphtha, does that mean also natural gas comes there also?

MR. FRAWLEY: No, not gas.

WITNESS: Natural gasoline I meant.

Q Yes?

A Well that depends on the shipper and the consignee, whether you can satisfy him or not. If you can satisfy him by moving his natural through the crude line in slugs or batches, I would rather have one line, but if you cannot satisfy him, you might have to have two. Now we have that situation in the States in a number of places where some shippers are willing to, rather their experience has been that they have not had any objection to our moving their natural through lines which at other times are being used for crude, and moving in large batches. They usually get from 50,000 barrels upward and when we have done that we start the crude movement through there again; they never have complained about it, we told them ahead of time what the conditions were; while they were sceptical about it at first, they finally found out they were not losing much over it; The discolouration was not enough to bother about it; while others would not stand for it, they want their natural gasoline handled not through it.

Q On account of the crude will degrade their product?

A It will discolour it and make it necessary for them to distil it, whereas they can use the other by blending with other gasolines and it can then be resold.

Q Granted there might be objections, can you see any reason why there should be more than two lines running to this field?

A Well I think I know why there is the reason, but I do not

say if we could start from scratch why there would be, no, the reason is probably because the one line was completed and after it was not of sufficient capacity to meet the needs of the shippers and so they had to build another one.

Q It has been added to, of course?

A Allpipe line companies have had that experience.

Q Implementing the lines you have there, it has been suggested here that one line would perform the services or at most two, at less cost, the same service to the users of the line could be provided to better advantage in one line than in three and at less cost.

A I don't believe it. The cost would be so little difference in the case you would not be able to find it.

Q Between one line and three?

A Yes. Now as I say, starting from scratch, maybe you misunderstood me, say at Turner Valley, you know everything about the Turner Valley field?

Q Yes?

A That you ever will know right now?

Yes?

A And you know how much oil the shippers are going to require at this end, the probable maximum, and you have no pipe line and you are going to build, to make a pipe line system?

Q Yes?

A One, you are going to move some natural gas up here through the pipe line too, I believe that you can get along with one line, it is being done in parts of the United States; naturally your starting cost is going to be less than it is with three lines. It may be that you cannot satisfy the

shippers on their natural gasoline and then you will have to build two lines to satisfy them, I don't know.

Q All right, build two lines then?

A That is all, I cannot see any need unless there is the third, unless your gravity range is such that you must have another one, you know your gravities, the quality of your oil in Turner Valley varies very greatly, your Turner Valley down there produces quite a large range in quality.

Q There seems to be no necessity for the third line?

A I do not see it now.

Q What would it involve in the matter of expense though? Capital expenditure?

A It would cost you more for the three lines to handle a given amount of oil than it would for one or for two, but I say.....

Q Operating costs too?

A The operating cost would not make enough difference.

Q It would not?

A No.

Q MAJOR LIPSETT: Just the capital expenditure?

A That is all, you will ask for carrying interest on your money.

Q And the expenses of the extra line mean something?

A Very little.

Q Pumping?

A I pay so little you couldn't figure it out on a barrel, it would be less than a mill. You would get on to such a small fraction you could hardly put it down on a piece of paper. You have a little higher pressure, it depends on where you buy your power, electric power, it might

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cost you a little more than a mill if you were buying power.

Q Of course you have been told something about the seasonable changes and demand for oil and so on?

A Yes.

Q The through-put of the line?

A Yes.

Q Assuming a new line here, what size would you suggest?

A With the amount of oil they have in the field now?

Q Yes, on the same basis as you have been talking about?

A Well if I were starting out tomorrow I would build a little larger line, but if I were starting out and didn't know about the out-turn of the field I would probably do the same thing as the Royalite did.

Q You would do the same as they did?

A Yes, but starting all over again I would put in a larger line.

Q What would you put in?

A I would put in an eight inch line, to handle the crude out of there and try and make that handle all of it down there and if it would not I would put in a small one, just enough to handle the natural, the natural gasoline, and I do not know just how much you get, it couldn't be very much but I do not see how, you have the pipe there and you have to use it, you cannot very well disregard it.

Q MR. FRAWLEY: It would be less than a thousand a day of natural gasoline?

A Well I would say an eight inch line, eight inch diameter line would be just about right for that field, but how can you know that in advance.

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Q THE CHAIRMAN: I am not saying one should, I am just asking you what you would do to-day?

A That is what I would do to-day.

Q One eight inch line?

A Yes.

Q MR. NOLAN: I am wondering, Mr. Chairman, what figure the witness has in mind of the through-put per day?

MR. FRAWLEY: 16½ thousand.

A About 15 or 16,000 barrels or even 20.

MR. NOLAN: That is the average.

MR. FRAWLEY: You are clear about that, it is 6,000,000, let the witness do it, 6,000,000, we gave you as the annual through-put?

A All right, now of course, it depends on where your storage is, one thing or the other, if you have to pump all your oil up here in the summer months and store it down there in the winter, you are going to need more than one line.

Q You know, of course, the field is produced under the orders of the Conservation Board?

A All right, then you have to step up the production in the summer, don't you?

Q Surely?

A Then you have to step up to more than 15,000 or 16,000 barrels a day.

Q About 29,000?

A Oh well that settled it, if you have to move 29,000 barrels, you are going to have more than an eight inch line, I am sorry, I misunderstood it, I am thinking in terms of 15,000 barrels a day, if you are going to have

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double that amount you are going to have an amount, you are going, if you are going to be able to handle it economically in the summer and in the winter, you are going to have a lot of line you cannot use in the slack time.

Q MAJOR LIPSETT: What would be the capacity of a six inch line and an eight inch line?

A It depends on the length, that is.....

Q I mean the capacity that will go through in a day?

A That has several factors, there is the pressure, the range, the viscosity of the oil.

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A There is a direct relation between the length and pressure. The friction in the pipe line goes up with the pressure, we always think in terms of economic capacity. In other words, is it more economical to build a larger line or is it more economical to put in another pump station. I would say at this distance it would be more economical to put in a larger line with say 30,000 barrels capacity than it would be to put two or three pump stations on a small line between here and Turner Valley field, to get the same capacity through the 6 inch line.

Q THE CHAIRMAN: It has been suggested in evidence here that this naphtha line is just used to carry naptha for the Imperial, except in emergencies, and with respect to the other two that it would be better if there were one larger line. I just wondered what you thought about it?

A Well I think the same thing. It would be better if you had a larger line.

Q It is also suggested that would be a less expensive, capital expenditure to be taken into account in considering what the proper service rate would be?

A Well, all right. But suppose some fellow came here. Here is that line with the most efficient machinery you know about today, pumping machinery, and your rate is on that basis. Tomorrow somebody invents a new type of pumping machinery that will cut - well it will improve the efficiency 300%. Then what are you going to do? Make a new rate because if you had the new machinery you could handle the oil more economically?

Q I would say that is one of the very great administrative problems for those who are so unfortunate as to be regulatory bodies.

A You have to take things as is, don't you, to make a rate?

Q That is one viewpoint. Another viewpoint is that the public should never pay more than the service is properly worth. If you are to pay for obsolescent things even though people put money into them that is another viewpoint. We have no viewpoint asyet. We are trying to get such help as we can from people like you who come before us.

A Well, that would be the end of everything if every time someone comes along and finds some way to improve the efficiency, and reduce the cost, and then if you make a new rate because if the utility had the improved equipment they could have lowered the cost, you never will get to the end of rate making.

Q No, that is the trouble. Also it is suggested by some that it would be very unfortunate for the general public if they had to pay a rate based upon an obsolete plant and uneconomical operation?

A Well what is going to happen?

Q It is sad there should be capital loss on the part of the person with the obsolescent thing but it is better for them to be sad than that the whole public should suffer. But after all we need not theorize today. You think that one line would be better but that the pipe line company or companies should not be asked to have anticipated what has developed down there, and it is reasonable that they should have three lines and

should have some return on them. That is your view?

A That is my view, yes.

Q Now, with respect to your other lines. You are operating this line in Kansas, the Kaw, is it?

A Yes.

Q What are you getting there?

A We get crude from Western Kansas. You mean the quantity?

Q No, what rate do you get for transporting? What are you allowed?

A That is a very low rate up there. We have got a set-up. We get 5 cents a barrel for gathering and transporting.

Q Both?

A Yes sir.

Q Between what points?

A From the leases to Chase, Kansas.

Q How far?

A I would say it is an average distance of about 25 miles.

Q 25 miles and you get 5 cents for gathering and transporting?

A Yes sir.

Q That is because you say you have a set-up?

A Some of that oil does not move a mile from the well into its station. Some of it moves as far as 50 miles. I said an average of about 25 miles. The rate is all the same, 5 cents.

Q Whether it moves a mile or 50?

A That is right. We cannot split hairs down there much more than that. We just have to do it, that is all. You do not make much money out of it.

Q MR. FRAWLEY: Which company is that?

A Kaw.

Q THE CHAIRMAN: As my associate points out you have 50 miles of trunk line and 450 miles of gathering lines?

A The reason I said 50 miles, that rate is not divided. It is not a combination rate. It is a consolidated rate, of 5 cents.

Q From the mouth of the well and delivered into the consignee's tanks?

A The greatest distance that the oil moves is about 50 miles. I would say the average is about 20 to 25 miles.

Q Are you under a regulatory body there?

A Yes sir, the Kansas Corporation Commission.

Q Then you have a company in Illinois, the Central States, if I remember?

A Yes.

Q You principally gather do you not?

A Well it is about 50-50. All the oil is gathered and moved.....

Q Moved by you?

A Let me say we do quite a gathering service for which we do not perform a trunk line service. But most of it also travels through our trunk lines.

Q A separate rate?

A Yes sir.

Q What are your rates?

A Gathering is 5 cents and there are two trunk line rates. One rate, it moves about 20 miles is 5 cents. Another rate moves about 70 miles and we get 7½ cents.

Q The first one, 5 cents, is how far?

A About 20 miles.

Q And in that cost you get 5 cents for transporting?

A Yes.

Q And the other is?

A About 50 miles on the average.

Q And you get what?

A 7½ cents.

Q For transporting?

A That is right. The volume is very large, it is 50,000 barrels a day. If it were 16,000 I do not know whether we could make any money or not.

Q Then you have the Texas pipe line?

A Yes.

Q The Texas, Louisiana and Arkansas, and you have some 4400 miles there?

A Yes.

Q About 1400 gathering and 3000 trunk?

A Yes.

Q How are you rewarded there for your pipe line services?

A Well, there is just so many rates down there I could not begin to recite them to you unless we had the Tariff Schedule. I do not happen to have the Tariff book with me here. I would be glad to mail you all our tariffs if it would be of any service to the Commission. They are a matter of public record down there. They are on file.

Q Is there a regulatory body there?

A Yes, the Texas Railroad Commission.

Q You do not remember what you do in fact get for transporting or gathering?

A Yes, we get all the way from 5 cents to 12½ cents a barrel. I do not think we have a rate higher than that for gathering. For our trunk line we get all the way from 1 cent to about

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35 cents a barrel. It depends on the type of character of service, to a large extent, and the volume moving.

Q MR. COMMISSIONER LIPSETT: And what would be the distance of that trunk line? You have 3000 miles of trunk line?

A Well they are about 600 or 700 miles.

Q THE CHAIRMAN: 600 or 700 miles?

A Yes. You could not take that 600 miles haul and divide that into cents per barrel, or vice versa, and then apply it to a short haul. It just won't work. If you take the short haul rate and multiply it by miles to the long haul rate, it wouod be so high it would be prohibitive. So after all the volume is the big factor .

Q Now we will rise for tonight.

MR.HARVIE: I assume we are through with this witness. He would like to get back to Kansas tonight if he can?

A Is there any more questions you want to ask me?

THE CHAIRMAN: I do not think of any just now.

Q MR. COMMISSIONER LIPSETT: You mentioned that the rates generally go from 10 to 12½ cents. Were these fixed at the start of the line, and take care of amortization and capital right from the start?

A No, they were not designed for that purpose, no sir. On account of the unknown, what you might say the unknown volume of oil being moved and other functions that the pipe line would be expected to perform, they established the rates and then went to the Commission and asked for permission to file those rates. The Commission had a

B. E. Hull.

Hearing or they had informal Hearings and if they were satisfied that was fair enough to start with they would not know whether the rate was too high or too low, and neither would the pipe line company.

Q Those rates you mentioned take care of the capital investment right from the start?

A It was supposed to take care of depreciation, yes sir, spread over a period of years. That is correct. Now then, after the field had been there a while and you know more about it maybe the Commission says that rate ought to be lowered. "We find you have a whole lot more oil moving than you thought you would when you came in to file the initial rate." Or it may go the other way, We might have to go to the Commission and say "Our rate is too low," after the field turned out to be a fizzle. "We will never get our capital out of that rate." And they will say that we should make another 5 cents and for 30 days they will give the other people interested an opportunity to protest it if they want to, and if nobody protests the new rate will go into effect.

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Q Have you any case within your experience where you were fortunate enough to get all your capital back before your rate was fixed ?

A Well I think there have been some, yes,yes, I think we have got it all back in some cases.

Q Well how was the rate fixed in those circumstances ?

A If you once got all your capital back?

Q Yes ?

A Well in the meantime the rates have been reduced, our rates had been reduced considerably over the period of thirty years, a few of them had been increased.

Q MR. FRAWLEY: But has the fact that you have had your capital all back, has that been taken into account by the regulating body in fixing the new rates?

A No sir, they have always taken into consideration the facilities and what we have , what went on before, whether we had lost a considerable sum or whether we had lost a considerable sum or whether we made some , was not taken into account.

Q Generally speaking these rates which you have given us in your own experience have not, are not rates which have been fixed by a regulatory body after scrutinizing the capital investment and arriving at a proper rate of return and the proper amount of operating expenses to be allowed and so on.

A The only fixing they have done, they have scrutinized the capital investment on one and have not scrutinized on others, gone into all other functions and facts in connection with the transportation.

Q In each case before any pipe-line rate in the United States goes into effect there has to be an enquiry and a scrutinizing ?

A No not in each case.

Q What is the general rule, give me the general rule first?

A We have the rate in the first instance.

Q The Pipe-Line Company fixes the rate first

A Yes. You go to any of these commissions in any State, if it is a local rate and then you apply for permission to establish a rate of so much to gather oil and move it and for permission to build the Line; they make a few inquiries, you go in to the Commission and answer the questions they may want to ask and they say " Well now we think the rate is too high here compared with everything", they ask a number of questions just as I have been asked here today " Why do you think that that rate should be that high" and the answer will be "Why there is no one that gives that field any more, not enough oil to justify a lower rate and we hope to get our capital back " and certainly we want to get a little more than our capital back, otherwise what is the use of spending it there, let someone else do it, unless you get your capital back. Finally the Commission says " All right, we think that is fair and reasonable" and we file that rate subject to giving everyone the opportunity to protest it. It is a temporary rate. Always, until the Commission finally fixes a rate and that may be four, five years, they will come in and they say " Your temporary rate, we are going to order that cancelled and our body finds that you are not justified in charging that rate. We suggest that your rate be so-and-so, have you an objection to that ?", and if we have we will tell them and if we have not then the Commission orders us to publish the lower rate and we publish the lower rate.

Q Is that all there is to it?

A That is all there is to it.

Q You never have public hearings in which you go very exhaustively into all of the capital which has been invested properly and improperly, prudently and imprudently, examine the operating costs in great detail, to see whether that is too much money being spent?

A No.

Q Nothing of that kind?

A No.

THE CHAIRMAN: Surely the witness is not speaking of the United States generally; the United States Supreme Courts are full of them.

A That is all in the Inter-States Commerce Commission.

MR. FRAWLEY: I am speaking first about these rates of yours which you have given us here this afternoon.

A The Inter-States Commerce Commission is the only one that goes into it thoroughly and exhaustively.

Q And have any of these rates been subject to being established by the Inter-States Commerce Commission?

A Yes

Q These rates you have given us this afternoon?

A Yes.

Q All of them?

A They are all temporary. I would say right now, because we have one case that attacks all the rates in the Country what they have not settled yet in Washington.

Q THE CHAIRMAN: Why do you suggest perhaps that no profit should be taken into consideration in the days that are gone?

A No, nor losses

Q Nor losses either?

A No.

Q In the sense of taking away the money you have already gotten from it?

A Quite.

Q Well are you suggesting that when they come to consider the rates that shall now be fixed, they have no thought as to whether or not the rates which have prevailed in the past, whether you have lost a lot of money?

A Well they would, yes.

Q And equally if you have made a lot of money?

A If the rates in the past have never made money and have always caused a loss, they will not allow it to go on too long.

Q But it has happened.

A It has happened. We are doing some service now at a loss

Q The Supreme Court of the United States is a sound recorder that it has happened?

A Yes

Q And Commissions do not insist on persons who have suffered a loss over a period of years carrying on at a rate which will perpetuate the loss, do they?

A No.

Q And equally they look at it to see if he has suffered a loss over the years, so they have regard whether or not a given rate has provided them with a good profit over the years, don't they?

A Well, I will put it this way, I don't know whether I can answer-----

Q Not with the point of view of taking anything away at all?

A I can only answer in this way, that if we had a large

loss and then we arrived at the Commission and asked them for a profit now large enough so that we could off-set that loss, well, we couldn't get it.

Q Not your past losses?

A No, they will say "We will give you enough to give a you a reasonable return on what you are doing now and what we believe you are going to do in the future", that is all they will give you.

Q Say if 7 cents?

A Yes.

Q Over a period of 3 years shows a distinct loss every year?

A That is right.

Q Now, would you feel you could go to your Commission with confidence and get that 7 cents increased?

A Yes.

Q If,on the 7 cents, it was shown that you had made 100% profit every year?

A Yes.

Q Would you expect to get it increased?

A No, Sir.

Q Would you expect to get it reduced?

A Yes.

Q So that from both angles-----

A If the Commission thought it was excessive, you mean, don't you?

Q Yes?

A The Commission has on its own instigation, Comissions rather, in several of the States, held Hearings, and while they have not gone into the exhaustive details,you speak of, they were able to develop on the

Hearings that certain rates, in their opinion, were yielding more profit than the pipeline was entitled to and they ordered lower rates and these pipelines posted the lower rates; the United States Commerce Commission has done that, but they made it a blanket rate; they wanted a blanket percentage applied to it and the carriers protested that, they said some of their rates couldn't stand that reduction, they were willing to reduce some rates that percentage, and others they couldn't and still make a profit, and that matter is now being considered by, or rather the rate question is now before the United States Supreme Court, I mean before the Commerce Commission, they have all the evidence in, they will probably rule on that sometime this year.

Q MAJOR LIPSETT: Has there been any general practice, Mr. Hull, in your case as to how you write off your depreciation on your plant, etc., as to how you amortize your capital?

A They usually get that provided in the Inter-State Commerce Commission; they approve that also, what we can charge to our expense account as depreciation.

Q What basis did you generally put those accounts in on?

A Well, they range anywhere, it is usually on the determined life of the field, and some allowance as to whether you can maintain that service for shippers in the field for that period of time. You might have a field that you might think is going to last, will have a profitable life of 25 years, but they may know of some reason or you may be able to show some reason where your facilities will only be in demand for 10 years,

and you may get the Commission to amortize that on a 10-year life, and in others you cannot; sometimes the Commission, well, I do not know of anyone that has stretched it on longer than about 25 years' life now, some fields are older than that, but the facilities sometimes wear out before that, a physical depreciation.

Q It would be based then on the beneficial lifetime of the plant and equipment?

A That is right.

THE CHAIRMAN: Any other questions?

WITNESS: Mr. Nolan, I think, had a question that you were interrupted on.

MR. NOLAN: I had, but I have forgotten what it was now.

WITNESS: I think, perhaps, I spoke a little too rapidly and got ahead of myself.

MR. FRAWLEY: We are not going to keep Mr. Hull, in any event, he can go back to Texas to-night?

THE CHAIRMAN: Yes, thank you very much. We will now adjourn.

(The Investigation was here adjourned to be resumed at 10:30 A. M. May 9th, 1939.)

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e Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 9th, 1939

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WITNESSES:

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MR. NOLAN: It seemed to us, Mr. Chairman, that perhaps it would be of some assistance if you have the point of view of a gentleman we have brought here from the East who will discuss briefly I hope these various points as to the terminal facilities, Mr. Naylor, so perhaps with your permission he might now give evidence on the few points which remain.

THE CHAIRMAN: We will be glad to hear him.

PERCY R. NAYLOR, having been first duly sworn, examined by Mr. Nolan said:

Q Mr. Naylor, with what company are you associated?

A The Transit and Storage Company.

Q And what is that company?

A It operates a pipeline from Sycnet, Ohio, to Port Huron, Michigan.

Q And what is your position in that company?

A President.

Q How long have you occupied that position?

A Two years.

Q What is the relationship between this Transit and Storage Company and the Imperial Oils, Limited?

A We are a subsidiary of the Imperial Oils.

Q How long have you been engaged in the oil business?

A Since June 30th, 1896.

Q Have you been in all branches of it or have you specialized in any particular branch?

A I have been in all branches of it; I have not specialized particularly in any branch except possibly you might call it "Transportation".

Q And when we talk about transportation, you mean pipeline?

A Pipeline and transporting by railway.

Q Will you give the Commission an outline of your experience in pipeline operations, briefly?

A The first practical experience in pipeline operation was at the time when we started to operate the Montana pipeline and at that time we were buying crude oil in the Kevin-Sunburst field and supplying the Maple Petroleums, Limited at Coutts.

Q In what year was that?

A In 1931.

Q Go on?

A And we continued to purchase the crude and transport it by that pipeline even after crude was found over in Cutbank at which time we made arrangements for connecting with the pipeline operating from the Cutbank field to Sunburst and there it connected to our line and we transported Cutbank crude from the Cutbank field to Coutts.

Q Yes, and had you been engaged in pipeline operations prior to your experience in Montana?

A Yes.

Q Where?

A When I was with the Continental Oil Company in Denver, Colorado. We had some pipelines down in the Florence, Colorado field and we also had a small line in the big Muddy Field in Wyoming.

Q Have you had any other experience that you can tell us about?

A Not particularly in the operation of pipelines.

Q And then about the year 1937 you became the President of this company I understand?

A Yes.

Q And your headquarters are where?

A Port Huron, Michigan.

Q Now Mr. Naylor, you were here yesterday when evidence was given before this Commission?

A Yes.

Q By Mr. Hull?

A Yes.

Q Arising out of the testimony which that gentleman gave, there are some points about which I would like you to give the Commission the benefit of your opinion, you are familiar with the physical set-up of this pipeline operations now controlled and operated by the Royalite Oil Company?

A Yes.

Q And including the terminal facilities?

A Yes.

Q What have you to say about the necessity for terminal storage?

A I would say that it is not absolutely necessary for a pipeline to have terminal storage other than just sufficient to take care of these occasional receipts at the terminus in order to prevent any delay in having it reach its destination.

Q If the refineries or customers of this pipeline have a direct service is there then in your opinion any necessity for terminal storage as such?

A No.

Q Insofar as loading tank cars are concerned, have you an opinion as to whether or not storage is required for that operation?

A At times it is required but it is not always necessary.

Q When is it not necessary and when is it necessary?

A It is not necessary in a small field where you can pump direct from the field into the cars; otherwise you might

need a small tank in which you can load into the cars.

Q But having regard to this operation here in East Calgary what would you say, do we require storage for loading tank cars?

A The pipeline company?

Q Yes?

A Not necessarily.

Q Well has there to be storage for loading tank cars?

A Yes.

Q There has to be?

A There has to be.

Q And why has there to be?

A For the reason that pumping into tank cars you are pumping in at a much less volume than you are to the pipeline and if you are loading direct from the pipeline you would experience quite a little difficulty in getting your cars properly loaded.

Q Yes?

A Therefore you would want a separate tank from which you could pump a definite stream into the tank cars.

Q Now Mr. Hull told us that in his opinion there would be required tankage equivalent to one week's maximum shipments?

A Yes.

Q Do you agree with that or not?

A I do.

Q And he said that was for loading tank cars and/or tank trucks?

A Yes.

Q Do you think the same storage would serve those two loading purposes?

A I would say so.

Q Now you said something about the pipoline not having storage, what was your point about that, that the pipeline itself did not require storage?

A It is not customary in pipeline operations in the United States for pipelines to provide storage; they may do so but usually they do not.

Q Is it customary for pipelines in the United States to load into tank cars or tank trucks?

A It is not customary; it is done.

Q Well is it fair to say that it is done where the peculiar circumstances of the case require it?

A Yes.

Q And in your opinion the circumstances of this case do require some storage?

A Yes.

Q For loading into tank cars and tank trucks?

A Yes.

Q Is there any loss loading into tank cars?

A Yes.

Q How does that come about?

A Well there is loss every time you handle any petroleum products.

Q Yes?

A Both by evaporation and in volume.

Q Yes; now so far as loading tank trucks are concerned, is that the same or a different operation from loading tank cars?

A The same operation only on a much smaller scale.

Q Yes, is there any necessity for a loading tank for loading tank trucks?

A Yes.

Q Or receiving tank, as I think it has been described, in

loading tank trucks?

A I would say it would be better practice to have it.

Q What purpose does that tank serve, the loading or receiving tank?

A I beg your pardon?

Q What purpose does it serve, why do you think it is better practice to have it?

A For the reason that in loading into a tank truck usually you are loading some 25 to 50 barrels at a time and you have to be pretty careful when you are loading such small quantities to not get your stream too high.

Q Is the loss in loading tank trucks as great or less than or more than the loss in loading tank cars?

A Providing, I would say it would be about the same.

Q I see what you mean, you lose some, it is in proportion to the volume?

A In proportion to the volume.

Q Now have you an opinion to give to this Commission as to whether or not the tariffs for loading tank cars or tank trucks should or should not be in the pipeline general transportation rate?

A In the majority of the tariffs that I have seen they provide for an additional charge for the loading into tank cars and into tank trucks.

Q And I take it that you mean that that is an additional charge paid by those persons who obtain that service?

A That is right.

Q Which is another way of saying it is not generally in the pipeline rate itself?

A Correct.

Q And in your opinion is that what should be done here?

A Yes.

Q Now have you any opinion which you can give us as to the customary rate for loading in the first instance tank cars?

A The customary rate is around 2½ cents per barrel.

Q For loading into tank cars?

A Loading into tank cars.

Q Does that include the loss that we have been speaking of or does it not?

A Yes.

Q It does?

A Yes.

Q What do you know about the cost of loading into tank trucks?

A I know very little for the reason that we never did any loading into tank trucks.

Q Is it uncommon in the States to load into tank trucks?

A Yes.

Q Do you know of any tariff which makes a provision for a charge for that service?

A I have never seen any.

Q Have you any opinion which you might give us as to what the cost of that should be?

A That would depend on the quantity that might be transported by truck; if it was going to be a steady movement, we will say 8 hours or 16 hours or 24 hours in a day, you can provide facilities and could operate it much more economically than an occasional truck.

Q Assuming for me that deliveries are intermittent, they are not continuous, that they are seasonable, that they are small, not to exceed 100 barrels per day, would the cost under those circumstances be more or less than loading tank cars?

A I would say it would be more.

Q Can you say how much more in your opinion?

A It would be an opinion only.

Q Well we have had many opinions and I am sure one more will not matter?

THE CHAIRMAN: One more is in order.

A It would run from approximately 2 to 2½ cents a barrel more.

Q MR. NOLAN: For the tank truck?

A For the tank truck over the tank car loading.

Q And I should have mentioned something to you in respect of terminal storage, all of the tankage, as I understand it, is not available, there is a top and a bottom?

A That is right.

Q Does that mean that only about 80% of it is usable tankage?

A That is right.

Q And do you agree with the evidence which we have heard that there should always be more than one tank?

A Yes.

Q Because one tank is receiving while another is discharging?

A Correct, that is right.

Q I mean you heard what Mr. Hull said?

A Yes, what Mr. Hull said about it.

Q And you agree with that?

A I agree with that testimony.

Q All right. Now there is in this pipeline operation a question about what we have been describing as branch lines----

THE CHAIRMAN: Mr. Nolan, would you mind elaborating that tank situation a little.

MR. NOLAN: About the capacity?

THE CHAIRMAN: Yes, he says two tanks I understand.

Q MR. NOLAN: Yes, now why do you have to have two?

THE CHAIRMAN: He knows the situation here, what size of tank?

MR. NOLAN: Yes, now you say one week's maximum supply in tankage is required?

A Yes.

Q Now you say more than one tank?

A Yes.

Q Now explain that to us because we do not understand it?

A That is because when you are pumping into one tank, in order to get an accurate gauge as to the volume of oil going into that tank you must seal that tank up and you cannot withdraw from that tank or should not withdraw from that tank if you are going to get an accurate gauge while it is being pumped into and while you are operating your refinery you must necessarily draw from the other tank.

Q Yes?

A Therefore it would require two tanks.

THE CHAIRMAN: I understand that but I also gather, Mr. Nolan, having regard to the peaks and valleys in the transportation of oil that you might have to have larger tanks than you would have if you had an operation that was equal day by day. Now what I am trying to arrive at in regard to the situation as we have it, what should be the size of those two tanks?

Q MR. NOLAN: In the first place, the Chairman would want to know what is the tankage which in your opinion is required, the total tankage and then following from that how in your opinion should that tankage be

divided up, into on or rather into two or three tanks and of what capacity?

THE CHAIRMAN: Has counsel agreed as to what is the maximum for the peak weeks?

MR. NOLAN: We have not got that.

THE CHAIRMAN: We could get down to concrete things then.

MR. NOLAN: We have seven cars a day from the evidence of Mr. Moore but it doesn't follow that because you have a big day that week that that is the week's maximum requirement because you might have another week that----

MR. FRAWLEY: If I may interrupt, he put it I think, Mr. Nolan, I was anxious to know whether that was an all-year average and he says "no, that would look after the heaviest part of the year", seven cars a day.

MR. NOLAN: I am not sure whether Mr. Moore meant that to be 49 cars a week or not because some of the evidence was to the effect that it would be 8,000 barrels a day which would give us 56,000 barrels a week. I do not think when we were talking to Mr. Moore, Mr. Chairman, that our minds were directed to this question of one week's maximum supply.

MR. FRAWLEY: No, one day's maximum supply.

MR. NOLAN: Yes, that was the biggest day. He gave us the biggest day but what the evidence has resolved itself into now is the maximum week's requirements, that is the biggest week in the year as opposed to the biggest day in the year.

MR. FRAWLEY: Well unless, that is surely not difficult, if seven days is the biggest day then we, I mean

seven cars is the biggest day, are we not erring on the side of too much if we take seven times the biggest day, surely that will not be any more than that?

MR. NOLAN: I thought it was to be done on a basis of a week rather than a day.

THE CHAIRMAN: And Mr. Frawley suggests 49 cars a week.

Q MR. NOLAN: Yes, have you any opinion as to what the requirements would be to load down here in the terms of barrels of storage?

A I would first want to know, Mr. Nolan, what is going out.

Q Yes?

A And without knowing what is being shipped why we cannot very well decided what quantities should be kept.

MR. FRAWLEY: Take seven cars a day.

THE CHAIRMAN: Seven cars give us on the evidence how many barrels, these are small things?

MR. FRAWLEY: 12500, Mr. Chairman, and we thought we should add 20% because of the fact that only 80% of the tankage was effective.

THE CHAIRMAN: Then if you add 20% that is what?

MR. FRAWLEY: We will just be exact about it, we will take 50 cars, let us take one more car and make it 50 cars and then take the biggest capacity car that we know of which is 240, we might take an average but we will take 240 and that is----

WITNESS: That is a wine gallon, Mr. Frawley, that is not an imperial.

MR. FRAWLEY: These are barrels.

WITNESS: But your 240 barrels would be on the wine gallon barrel, would it not?

Q MR. FRAWLEY: When Mr. Moore said a barrel----

A I was just thinking of it from a wine gallon into the Imperial gallon because the Imperial Gallon is 35 as against 42.

Q True but do we need to worry about the gallons, I didn't think we needed to so long as we were talking in barrels?

A I was just, a tank car of 242 barrels would be 242 gallon wine barrels, would it not?

Q Well of course I cannot say, Mr. Moore just said barrels?

A I think that is right.

Q He just said 240, by the way, he said 240 is the biggest tank car he sees down there?

A I think probably when he made that statement he was figuring on the 42 gallons, wine gallon barrel, is that right?

Q Wait until we see now.

MR. COTTLE: A barrel is the same in either case.

A Yes, but the Imperial gallon is larger than the wine gallon and therefore you would have less than 242 Imperial gallons in the barrel.

Q MR. COTTLE: It depends on how many gallons he is figuring in the car?

A There are around 12,000 gallons in the car.

Q Wine gallons?

A Wine gallons and that is about 242 barrels.

THE CHAIRMAN: Well now how are we doing.

MR. FRAWLEY: We have 50 cars; with respect I cannot see what the difference is if we are talking about barrels because in this country the barrels have a certain number of gallons.

A That is right.

Q As against what the barrel is down there?

A But it is a barrel, correct.

Q MR. FRAWLEY: Then, Mr. Chairman, this is the calculation I have for you, 50 cars at 240 barrels which is 12,000 barrels of storage; now adding 20% to that, because for the reasons given yesterday by the witnesses, that is 2400 so that we now have 14,400 as being the necessary storage to handle 50 cars a week as I see it now. You do not want to add anything to that on this gallonage business?

A No sir.

MR. FRAWLEY: All right.

Q MR. NOLAN: I suppose you would say if it is 50 cars a week that would be sufficient or would you?

A It would if that was the volume which was going to be moved out.

Q If that is one week's maximum supply?

A Yes, that is right.

THE CHAIRMAN: If you do not mind, Mr. Nolan, so that we can get this down to something concrete, then you have your trucks over and above that?

MR. NOLAN: In accordance to the evidence of this or the other witnesses, this storage takes care, as I understand it of both.

THE CHAIRMAN: I mean the quantity of barrels.

MR. FRAWLEY: We had the 100 barrels a day, sir, if that is worth while making a separate calculation for, just to cover it all.

THE CHAIRMAN: That is 700 barrels a week.

MR. FRAWLEY: That is 700 barrels a week, that is true.

THE CHAIRMAN: So you have then roughly.

MR. FRAWLEY: Yes, you see we gave you now a tentative figure of 14,400 that we have been using, and

when I say "we" I have been more or less accepting the figure of 15,000 barrels as being the effective storage so I think that additional storage would take care of that.

THE CHAIRMAN: That is setting an outside figure of 15,000 barrels.

MR. FRAWLEY: Correct, sir.

THE CHAIRMAN: To cover all the storage.

MR. FRAWLEY: Yes.

MR. NOLAN: And is it your opinion that the storage would cover both type of delivery, Mr. Naylor?

A Yes.

Q That it would?

A Yes.

Q Now turning to the question of what we call "branch lines"?

MR. PLOTKINS: Mr. Chairman, pardon me, before we go ahead, I think these statements have been quite in error because I know, referring to tank cars, at the Imperial, they move in train loads and it is obvious that seven cars a day is not the maximum. I think it should be elaborated further.

MR. NOLAN: I have taken steps now to get in touch with Mr. Moore to find out if any error has crept into that figure and perhaps I will have the answer now if I may be excused. We cannot get him at the moment but we will in a very few minutes.

Q MR. NOLAN: There is the question here, Mr. Naylor, discussing branch lines and by that I mean tapping the trunk-line for the purposes of serving a refinery direct?

A Yes.

Q What in your opinion should be done in respect of these branch lines, first as to the cost of installation?

A Usually, the practice is that, if the refinery desires a connection to a pipeline and if there is going to be sufficient volume to warrant the expense of putting in a line that the pipeline company would do it.

Q At its own expense?

A At its own expense.

Q Yes?

A And if it was not that way and proof cannot be given for a satisfactory bond that the cost of the line would not be returned to the carrier, then the carrier can put it in and at the cost of the refinery and make a refund on the number of barrels received.

Q Now is it the practice in the States to compel pipeline companies to make these connections or is it left as a matter of agreement between the parties?

A Left as a matter of agreement for the parties.

Q And I suppose that would depend upon the volume as you say required by the customer and the financial responsibility of the customer?

A That is right.

THE CHAIRMAN: Well if you care to, Mr. Nolan, you might explore that, you see as I drew to your notice, it seemed to me and you might care to explore it by this witness, that there is a different situation where there is a measure of control in a competitor of the people who seek the connection; now that is easy to understand and perhaps the witness might care to speak about it.

Q MR. NOLAN: You follow what the Chairman is saying, Mr. Naylor?

A Yes.

Q That in effect we are a subsidiary of the Imperial Oil and in the refining business?

A Yes.

Q These other companies who desire these connections are in the refining business in competition with that Imperial Oil which controls this pipeline?

A Yes.

Q Now does that in any way effect your opinion as to the propriety of the pipeline company making this connection under the compulsion of a regulatory board?

A No.

Q Well what the Chairman wants you to direct your mind to is whether this element of control would make it proper for a regulatory body to compel this connection, that is generally what it is?

THE CHAIRMAN: Yes.

WITNESS: Well in all pipeline operations that I know of the pipeline is in the transportation business to make money and if a refinery can satisfy the pipeline that they can take a sufficient quantity of oil that would pay for the expense of putting in that pipeline, that they would certainly do it but I do not know of any case where any company has taken that matter up before either a State Commission or the Inter-state Commerce Commission compelling the connection. It is usually done by agreement.

THE CHAIRMAN: You see, that scarcely touches the point. It might be an advantage to the pipeline, as such, to get business, but of much greater advantage for the refinery, as such, to have no competitors.

Q MR. NOLAN: Should it be left to the discretion of the pipeline company, controlled by the refining company, as to whether or not the pipeline company should make a direct connection to competing refineries. Is that it?

THE CHAIRMAN: Yes. Should it be left to them. You put it quite clearly.

A Might I get that again? I did not quite catch it.

Q MR. NOLAN: I am not sure I can say it again. Should it be left to an agreement to be entered into voluntarily by the pipeline company, controlled by a company in the refining business as to whether the pipeline company should agree to furnish connections to other refineries competing with the controlling refining company?

A May I answer that in this way. That the Inter-State Commerce Commission and these various Commissions are for the purpose of seeing that no discrimination enters in, and if the pipeline company were forced by a refining company that owned it to not make that connection then the refiner could take that up with the Commission and the Commission under the laws that I have read could force that connection. Does that explain that?

Q Yes, I think that is coming very close to the point.

THE CHAIRMAN: The question is, has that time come for us?

MR. NOLAN: Yes, and it is for you to decide.

THE CHAIRMAN: Yes.

Q MR. NOLAN: Apart from the cost of installing these branch lines to refineries, under whose control should the operation of these pipelines be carried on? I am talking about the branch lines?

A Under the pipeline operation.

Q THE CHAIRMAN: This is the service line from the trunkline to the refinery.

MR. NOLNA: Yes, the service line from the trunkline to the refinery. That has to be operated by somebody.

A Controlled by the pipeline company.

Q Why?

A Because there are so many things that might happen. You want to be sure that that line is in good shape and there are so many questions that might come up in connectiion with the branch line if the pipeline company did not have the operation of that line, that you might get into a great deal of trouble and controversy.

Q Yes, and you are saying that as a practical solution of the problem it is your opinion that the pipeline utility company should continue its scope of operation over this service line?

A Yes, sir.

Q Have you any opinion as to the amount which should be delivered-----

THE CHAIRMAN: I suppose he agrees, does he, that that line should extend to the tanks of the customers, the refining customers?

MR. NOLAN: Yes, where should that service line end? It begins at the trunkline?

A At the tank.

Q Whose tank?

A The receiver's tank.

Q To the receiving tank?

A Yes.

Q Of the refiners?

A Yes, sir.

Q What is your opinion as to the amount, the minimum amount which refineries should be required to take. I understood Mr. Hull to say in his opinion 3,000 barrels was the minimum. Have you any opinion as to that?

A I would say that that would not be an unreasonable amount to require as a minimum taking.

Q Something was said yesterday about the way these rates are built up in the United States. I can lead you for a moment to say that we know from the evidence that as a rule they are divided into what we know as the gathering rate and the transportation or trunkline rate?

A Right.

THE CHAIRMAN: Before you leave that subject, I wonder if you would care to follow up that question of 3,000 barrels as the minimum taking.

MR. NOLAN: Yes.

THE CHAIRMAN:

Q You mean by that?

A One pumping.

Q In order to justify a connection what number of pumpings a year. We have heard a lot from the previous witnesses as to when it is good business a connection might be made voluntarily or would be made voluntarily. Well, all right. What, in his opinion, constitutes good business? There must be some point where-----
I am interrupting you, Mr. Nolan,only because I thought you might want to get it out of your own witness.

Q MR. NOLAN: You are the man in charge of this pipeline, for the moment?

A Yes, Sir.

Q And a connection is requested by an independent refiner?

A Yes.

Q You say that depends on the volume required by you?

A Yes, Sir.

Q What volume do you require before you would make that connection?

A That would depend on how long that line would be and how frequently this party could take pumpings, and the amount that he would take over a yearly basis.

Q If the distance from the the trunkline to the refining property is 1100 feet and the requirements of the refiner are 500 barrels a day.

THE CHAIRMAN: 1100 feet, does that cover the case?

Q MR. NOLAN: To the tanks it is 1700 feet, but I think to the boundary of the property it is 1100 feet.

MR. PLOTKINS: Something like that.

Q MR. NOLAN: To the tank it is 1700 feet, and the requirements of the refiner are 500 barrels a day, would that, in your opinion, be a volume which would be sufficient to bring you to the point of view he should have a connection?

A It would, on the understanding he would take that 365 days in the year.

Q THE CHAIRMAN: I do not understand that. I thought you wanted to have a 3,000 barrel minimum taken?

A That would be the average. In other words, you could take 3,000 barrels at a time, but you could take 500 barrels over 365 days, which would be about 160,000 barrels over the year.

MR. COMMISSIONER LIPSETT: In that particular case, what would be the minimum taking you would insist on, in that particular case, assuming it was not convenient for him to take 3,000?

A That would depend, Mr. Commissioner, on other services you might have on your line. In other words, if you have other customers that are taking regularly and you would interfere with their operations it might be you would have to say "Well, we might go down to 2,000, but I would say to try and hold it around 3,000 barrels.

Q Even if it put their customer to additional expense?

A That would be something we would have to work out. In pipeline operations we have to do these things once in a while, when one party wants a little bit more crude and another party wants a little bit less. We just have to work those things out with the customers.

Q MR. NOLAN: As to the rates that are in force in the United States, let me be clear, you know something about the manner in which those rates are laid down in the states, do you?

A Yes, Sir.

Q Are they laid down by----the Inter-State Commerce Commission deals with them when they are extra State, as you call it?

A Inter-State, Inter-State or in foreign Commerce.

Q Yes, and when they are only within the territorial limits of a particular State, then there is a particular utility board in that State which governs that?

A Yes.

Q How do these rates come into existence, or do you know? Do you know about these things?

A Well, I know that in making arrangements for rates in Montana that we consider what might be a reasonable charge for the service to be performed We make up a schedule on a form prescribed by the Montana Railway Commission as well as the Inter-State Commerce Commission and we file that schedule with them. That schedule has to be filed 30 days prior to the effective date, and you can put in a rate that would be, say 20 cents or 25 cents, whatever you may think that service would be worth. Then your shippers in that territory have an opportunity of protesting against the publishing of that rate.

Q Yes?

A Then the Commissions order a Hearing and at that Hearing it is discussed pro and con, and if it is not a

satisfactory rate, why we might be ordered to put in another rate. But I can say this, that I do not know of any orders being issued in that respect.

Q THE CHAIRMAN: Have you knowledge now of what this form contained. You haven't a copy of the form, I suppose?

A No, I hamen't, Mr. Chairman. Oh, I have a copy, yes, I have too, I have a copy of the form. I have a copy of our tariff here. That just provides the size and the form in which the rate shall be published.

Q Form No. 1, Montana pipeline tariff,

Q MR. FRAWLEY: You spoke of a form you filed before your rate became effective at all. "Montana Pipeline Company, Local Pipeline Tariff." But you spoke of a form - I gathered you supplied a form?

A That is the form filed.

Q And no further information is given?

A No. You send it right in to the Inter-State Commerce Commission.

Q THE CHAIRMAN: You mean that the Inter-State Commerce Commission does not want to know anything about your capital and operating costs?

A Not at the time we filed the tariff.

Q What really happens, I suppose, is, that if nobody objects the rate goes into effect?

A Yes, Sir.

Q Until somebody does object?

A Yes.

Q Then they go into all these matters?

A Yes, Sir.

Q MR. NOLAN: As a matter of fact, the Inter-State Commerce Commission is going into the question of pipeline rates at the present time?

A They are at the present time, yes, Sir. They are making an exhaustive examination of them.

Q Are they valuing these pipeline operations?

A Yes, Sir.

Q In the United States?

A Yes.

Q And on what basis are they making the valuation?

THE CHAIRMAN: If he knows.

MR. NOLAN: If you know.

A They are two ways in which they are considering it. Original cost, less depreciation or replacement value.

Q Yes?

Q MR. FRAWLEY: Have they made up their minds yet?

A Not yet.

Q MR. NOLAN: When you say original cost less depreciation, what kind of depreciation do you mean?

A In operating under the Inter-Stateq Commerce Commission they have prescribed certain rates of depreciation on certain articles in pipeline operation. Tanks may take one depreciatioh rate; pumps another, houses another, and your pipeline another .

Q Is your depreciation they are considering the depreciation as laid down by the Inter-State Commerce Commission?

A Yes.

Q Or is it the depreciation that the company itself writes off?

A Well, we have argued with them that in some cases their depreciation is too low?

Q Yes?

A And they in turn have argued it is too high, and now the matter is up for discussion and argument before the general session of the Commission. They may say "Well, you are going to take this, or you are going to take that " It will be a possible agreement.

MR. NOLAN: Would the Commission like that marked as an Exhibit?

A They may have it, if they wish.

Q MR. COMMISSIONER TIPSETT: There is just one of the regulations, Mr. Nolan, if you do not mind, that I would like to ask him about now. It shows the minimum amount of oil which will be received by the company is 500 barrels?

A That is, Mr. Commissioner, where we go out to the lease and pump from the lease.

Q You take 500 barrels at a time?

A We take 500 barrels at a time.

Q What do you do with that at the other end?

A Well, that goes into a common tank. In other words, that is from the gathering lines into our field storage.

Q Would you deliver that 500 barrel lot at the other end?

A In certain cases we might have to, although we never have made any deliveries from the Montana Pipeline in less than 5,000 barrel lots.

Q That really deals with the receiving end?

A That deals with the receiving end. That is, this tariff here deals with the receiving end.

MR. NOLAN: Would you like that marked or not?

A THE Chairman and the Commission make keep them.

MR. NOLAN: We only keep them if they are marked.

THE CHAIRMAN: We will pin them together and mark them as one Exhibit.

(DOCUMENTS IN QUESTION ARE NOW MARKED EXHIBIT "251".)

Q MR. NOLAN: Do you know of any pipeline operation in the United States comparable to this pipeline operation here in Turner Valley?

A Yes, there are some.

Q I mean can you give us the benefit of what you know of the rates which exist there, in systems comparable to this?

A Well, the one I am most familiar with is the Cutbank field.

Q Yes?

A Their trunkline there from that field, we will say, to the International boundary, is approximately 30 miles.

Q MR. FRAWLEY: This is the Toronto Pipeline Company?

A Talking of the Toronto and also of the International, and our line. That is what was our line. We haven't it any more. Their gathering system down in there, I would imagine, would be comparable with this out here, about 90 miles or 100 miles. They are charging at the present time for that service 15 cents a barrel.

Q MR. NOLAN: Do you know that materials cost, I mean pipeline equipment and materials cost more in this country than they do in the United States?

A Yes.

Q By approximately 40 or 50%?

A I do not know the exact percentage. But I know it is considerably more.

Q The cost of operation up here would be higher than it would be in the States?

A Yes, Sir.

Q Due to weather conditions?

A Yes, Sir.

Q Our oil is heated here, Mr. Naylor?

A Heated?

Q Yes?

A Well, we never had to heat any oil in Montana.

Q Would that increase the cost of operation?

A I would say so.

Q Our trunklines are laid to a depth of 5 feet. Is that more or less than the depth to which they are laid in Montana?

A Our pipeline in Montana was what we considered plough depth, from 12 to 18 inches, in some cases 22 inches.

Q Well, I think that is all I will ask you. Thank you, Mr. Naylor.

Q THE CHAIRMAN: What degrees of frost do you get there?

A It depends on your oil, the wax in the oil has a lot to do with what you have to do with it.

Q MR. NOLAN: It is as cold in Montana as it is in Alberta?

A Just as cold, yes.

THE CHAIRMAN: I was wondering.

A I was answering Mr. Nolan's question. But that is the reason for it, is that there is not as much wax and, therefore, it does not get as thick and sticky, as viscous, as you call it?

Q MR. FRAWLEY: It is not a question of Mr. Coultis bathing the oil at all?

A No.

Q MR. PLOTKINS: The nature of the oil in the Cutbank field, Mr. Naylor----

Q THE CHAIRMAN: Just while I think of it, and before you start, Mr. Plotkins. This Toronto Pipeline Company, we have had some evidence about it being operated for a parent company, do you know anything about that?

A I do not, Mr. Chairman. I have no connection with it at all.

THE CHAIRMAN: All right, Mr. Plotkins.

Q MR. PLOTKINS: The Cutbank crude, you are very familiar with it, Mr. Naylor?

A I have bought a few barrels of it, Mr. Plotkins, yes.

Q It is highly waxy?

A Yes, Sir.

Q Would you say it is worse or better than Turner Valley?

A Well, I have not operated a pipeline in Turner Valley, but I know we have very little difficulty with the oil down there.

Q But in general it would be about the same nature?

A I do not know, I have never made a comparison.

Q In Montana the different pipelines gather oil for their parent companies. In other words, each refiner or each major organization has its own gathering and

transportation system, in the main?

A Oh, I do not know.

Q Well, we will take them in turn. At the present time in the Cutbank field we have the International?

A That is right.

Q It supplies its own refinery?

A Right.

Q We have the North West Refinery and the O'Neill interests, it does its own gathering?

A The Big West.

Q Not the Big West, the North West?

A O'Neill, I think, he has a connection down near Cutbank, that is at his refinery. Now, I do not know. That is my understanding.

Q Since you left the field Mr. O'Neill and the North West have purchased part of other systems and has created its own gathering system?

A It has.

Q Yes. So that for all practical purposes it pays no charges to any other company. So that it is not interested in the rate. The International is only interested in the rate to the extent of the service they may perform for the public and that part of their operations is hardly worth considering, is that correct?

A Well, I do not know. I have not been down in there, Mr. Plotkins, for over a year, and I cannot say what the practices are at the present time.

Q Well, now, in the Kevin-Sunburst field the Big West has its own gathering system?

A I understand it has, yes, Sir.

Q The International or the Texas Company has its own gathering system?

A I am not sure of that. I think theirs is gathered by the Illinois Pipeline, is it not?

Q No, to my knowledge they gather their own oil. Now, it is true that part of the system originally belonged to the Illinois Pipeline, but at the present time, to my knowledge, they gather their own oil and make their own connections?

A Well, you have later knowledge than I have, Mr. Plotkins, as I understood that they were using the Illinois Pipeline system. They might have some of their own gathering lines, but I did not know of them at the time I was down there.

Q When the Maple Leaf was operating it had its own trunkline system and gathering system?

A Right.

Q So that for all practical purposes in Montana, in the northern field, in the main, - there may be minor exceptions - yes, we will even go to the smaller refineries. There is the Deloraine Refining Company, you are familiar with that?

A Yes.

Q It has its own gathering system?

A I do not know.

Q So even a small 200 barrel refinery finds it profitable to have its own gathering system, in the Kevin field I am talking about?

THE CHAIRMAN: Look here, Mr. Plotkins, we want the answers from the witness and not your

statements. You put something to him that has not been answered.

Q MR. PLOTKINS: Would you say that is the reason they put in their own pipeline system is that they find it more convenient and profitable?

A I would say they find it more convenient and profitable, yes, that is why they put it in.

Q So that conditions in Alberta, where there is no competition or where each refining company is not in a position to gather and transport its own oil, the conditions are not similar in respect to rates?

A I do not know of that. I would say that regardless of whether you own the line or whether you do not own it a reasonable cost is going to be in effect just the same.

Q Yes, I agree with you, but when it comes to publishing a rate and filing that rate with the Commission, and expecting objections, it is not likely to be any under the circumstances that prevail in Montana?

A Oh, yes, there could be, Mr. Plotkins. Yes. How about the Producers' Pipeline from the south end of the field there. They are supplying the Home Oil They are also supplying, as I understand it, the Pocatello Refinery at Pocatello, Idaho. They are independent. They could use the International line and they did. And others can go in and use the Illinois Pipeline system.

Q At times?

A Well, they are there for that purpose and I do not see how they could refuse if the volume of the oil and quantity was sufficient for them to handle.

Q For who, for the International?

A For the independent.

Q Oh, for the independent?

A Yes. In fact, we know that they are doing so to-day, from what I have heard.

Q Doing what?

A Loading crude oil there into tank cars. That is the Illinois Pipeline at Sunburst.

Q Is loading crude oil for what company?

A Well, I understand it is coming across to Sodium Products.

Q That is in Canada. But we want to stay with the situation in Montana. As you have pointed out to me, the Home Oil and Pocatello, is it?

A Yes.

Q Refinery, even though they are located at a good distance from Cutbank, have seen fit to purchase and put into operation their own gathering and loading system?

A Well, I do not know as to that.

Q That is what I understood from you, that you said that?

A No.

Q You are not familiar with the situation?

A No. I do not know if they have done that, Mr. Plotkins. I do not know it.

Q If that were a fact, that all of these different companies are handling their own oil, the necessity for having a rate scrutinized would more or less disappear?

A Yes.

Q So if that were a fact the conditions would not be similar to the conditions that pertain in Turner Valley,

where all the refineries and all the purchasers are dependent on the one pipeline?

A Yes.

Q At the present time and for some considerable time there has been agitation in the United States for divorcing operations of pipelines from the other operations of the industry, is that a fact?

A I saw it in the papers.

Q You know at the present time there is a Commission appointed by Congress in the United States to take testimony and go into that matter?

A I understand, Mr. Plotkins, and this is not authentic, that when that matter came up before Senator Wheeler, who is the Chairman of the Inter-State Commerce Committee, that the commodity clause was not included in that investigation. Now, all I am giving you is a report I have received. Therefore, that would be out if that is true.

(Page 6823 follows.)

Q Now there has been and still is considerable agitation to obtain that is there not?

A There is a lot of talk about it.

Q Yes, on the part of the independent crude producers and the independent section in the industry in the United States, that is right?

A Yes.

Q Now so that would indicate that in general throughout the United States there is dissatisfaction with the fact that the major units of the industry who are refiners and distributors and producers, there is dissatisfaction with the situation whereby they control the transportation agencies in the main in the United States?

A Well I would say, Mr. Plotkins, that that is not the only complaint they have got, they are dissatisfied with all the conditions.

Q True, but I mean that one particular fact?

A That is the one they are after right now.

Q That they are after right now?

A Yes.

Q Mr. Commissioner Lipsett has pointed out that under the regulations set up by the Railway Commission in Montana you are bound to accept deliveries as low as 500 barrels?

A That is right.

Q From the producers?

A Under the Montana Railway Commission.

Q Regulations?

A Regulations, you are right.

Q Now if you are compelled to accept deliveries of 500 barrels it goes without saying that you would also be called upon to deliver to the purchaser at the other end of the pipe

line in lots of 500 barrels?

A Under the Montana regulations you are correct.

Q That is correct?

A Yes.

Q THE CHAIRMAN: You are bound to receive and bound to deliver in 500 barrel lots?

A Yes, under the Montana Railway Commission's orders.

Q MR. PLOTKINS: Are there any regulations made, set up by the Montana Railway Commission, that stipulate the conditions under which the pipe line company will connect to a refinery for delivery of oil?

A No, there are no stipulated conditions, Mr. Plotkins. They say that a pipe line must connect if necessity exists.

Q If the necessity exists?

A That is right.

Q So that if the refiners feel themselves agrieved by the refusal of the pipe line company to make a connection they can go to the Commission for a ruling?

A They can, yes.

Q So that for all practical purposes the Commission does compel the pipe line company, if the circumstances warrant it, to make delivery direct to the refinery?

A I would not say does, they can.

Q True, well, is not the purpose of a pipe line to gather, transport and deliver?

A Yes.

Q To come back to the loading of tank trucks, Mr. Naylor, you were President of the Maple Leaf Oil Refining Company?

A Yes.

Q The Maple Leaf Petroleums for some years?

P. R. Naylor.

A Yes.

Q And you are fully familiar with loading tank trucks?

A By tank trucks.

Q For refined products?

A For fuel oil and so on, yes,

Q At the Maple Leaf Refinery you had tank truck loading racks?

A We did.

Q As well as tank car loading racks?

A That is right.

Q And would you say that it is not preferable, or at least would you say that it is impractable to load tank trucks from the main storage tank, crude storage tanks, through a pump and a meter, direct into the tank truck?

A That would depend, Mr. Plotkins, if you are loading into tank cars out of one tank, you certainly would not want to make a connection and run also from that tank tank trucks at the same time. You might have a loss from your gauge that might cause a loss that you would not be able to find.

Q Bur if you had an accurate record through the meter of what you loaded into the tank trucks that disability in gauging would partially disappear?

A If the meter was accurate.

Q We will assume that meters are accurate today, you will agree with that?

A Yes.

Q So that we can eliminate a considerable amount of expense, having in mind the seasonable character and the small amount that is contemplated to load into tank cars, we could eliminate all the machinery and use a plain pump

and one meter for loading crude into trucks.

A You would not use the same pump, I would gather, Mr. Plotkins, in pumping into tank trucks, while you were pumping into tank cars.....

Q No, I am not saying the same pump, but you could use a pump suitable for the purpose?

A Oh yes.

Q And a meter, and eliminate the tanks and eliminate all the rest of the paraphernalia?

A Well that is not customary.

Q It is not customary, but in view of your experience loading fuel oil and refined products at the Montana Refinery, that is the Maple Leaf Refinery, would you say it would not be practical?

A We never put it into practice.

Q But you did the loading?

A We did, and we usually had the tank trucks, in other words, your tank truck was efficiently gauged and each time it was loaded why there were that many barrels. in, the same as in the tank car.

Q That is one thing which has been overlooked in this tank truck discussion?

A Yes.

Q The Dominion Government compels tank trucks to be officially gauged, that is correct?

A Well now, that was my understanding when we were operating trucks, and I don't know if it has been changed.

Q That is a fact, and in view of that fact and that additional check done through the meter, would you say it would be more difficult to load through a separate pump and a meter direct into these tank trucks?

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A No more difficult, Mr. Plotkins, but it would be inconvenient.

Q More inconvenient?

A Yes.

Q Now it would not be necessary to maintain an establishment and a man or men all the time at the truck loading platform?

A Oh yes.

Q If the movement were seasonable?

A You would have to have him there while you were loading the trucks.

Q While you are loading the trucks?

A That is right.

Q So it would be probably not necessary for you to pay a man and have the other facilities, the other services, the year round to load tank trucks for possibly eight months?

A Oh, I would say you would charge that man's time while he was actually performing that service.

Q Yes?

A But you would have to have your man there to perform that service if you are going to give service to the public.

Q THE CHAIRMAN: I understood you to say that you do not need any separate tank in respect of tank trucks, that a pump, a separate pump and a meter would serve your purposes, using the tanks which you would use for car tankage for the same purpose?

A It can be used, Mr.Chairman. While it is not customary to do it, while it is a small body, and it goes into the tank truck, now when we were loading fuel oil, going back to Mr. Plotkins' question there, we would load our fuel oil from a different tank when we were loading into tank

trucks than we did into tank cars. It is a better operation.

Q MR. PLOTKINS: It is more convenient?

A Yes.

Q The Royalite has already advised the Commission that it would load in eight hour shifts, in other words it would only load during certain periods, to cover eight hours. Now if the loading were confined to eight hours, in daylight.....

THE CHAIRMAN: I suppose really that should put that they suggest that that should be the proper period within which to do it.

Q MR. PLOTKINS: Yes, it has been suggested that that would be the proper method of loading, that is restricting it to eight hours, so as to eliminate the danger of fire and also reduce the cost?

A Well I don't know what their procedure may be.

Q In view of that, and now that we have come to the point where we are going to load, where we are going to have a man only at the time when it is required to load tank trucks, would you say that the general gaugers and loaders in the yard would not also be able to take care of the tank truck loading, or would you say that it would require a man specially for that?

A Well it would all depend, Mr. Plotkins, upon the conditions.

Q The circumstances?

A Yes, I would not want to testify as to what would be good practice for the Royalite.

Q You have mentioned in your testimony. Mr. Naylor, that you felt that in cases where the refinery could not satisfy the

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carrier that the volume would justify the installation of a delivery line that the refinery should pay for that delivery line and be reimbursed by some method by the pipe line company?

A Yes.

Q What method of procedure would you suggest?

A Well, that question has never arisen in my operations, Mr. Plotkins; railways, they allow you, if you build your own track, a refund of so much a car for every car that you put over that switch.

Q Yes?

A Now just what basis might be used in petroleum I would not want to venture to say because I do not know, never having seen it.

Q We will get down to a concrete case, when you were manager of the Montana Pipe Line Company and a refinery, we will assume that a refinery made an application to you a connection?

A Yes.

Q On what formula or basis would you sit down and figure out what you would require to have done before you would build a connection, assuming that the connection was a four inch line and a length of 1750 feet to the tank?

A Well I would first determine the responsibility of the party.

Q Yes?

A And that the crude that they were going to produce and transport over the line was legal oil.

Q Yes?

A And that I would want to be assured that it was going to be for a certain period of time.

Q How long would you say?

A And so many barrels, we will say on an average either weekly or monthly over that period, and then come to a basis of an agreement.

Q Yes, but you would have to go to the party and stipulate that in barrels or in dollars and cents or in some concrete method?

A Oh yes, we would sit down at the table and figure it out.

Q Now to the best of your judgment, if you were faced with that situation, would you not have some formula, some method, some basis of working it out on, as to the number of barrels or as to the speed with respect to which you would expect to get your remuneration for your investment?

A Well, there being so many hazards in the oil business, I would try and get remunerated as quickly as I could.

Q On what method would you consider this remuneration, there must be some guide?

A That is a difficult question to answer, Mr. Plotkins, not having experience of conditions before me, in the operation of our line, why I do not know, it would be a matter of agreement to come to.

Q Assuming that the oil was legally produced, assuming the party was financially responsible, and you were assured that the refinery would operate on the same basis as all the other refineries, that is in this country we operate on a seasonable basis and probably nine months is about the average operation, now assuming all those factors and the additional known fact that there is 1750 feet of 4 inch line to build, what would you demand as good business and why would you demand that?

A Well if I come to the point that I was assured that the

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party was responsible and the oil was good I would go ahead and put it in.

Q All right, the volume, 1750 feet line, 4 inch pipe, everything else taken care of, what would be the minimum? Forgetting 5 or 10 years, what would be the minimum from a financial standpoint?

A Well I would try and get it back if I could in a year.

Q By what method?

A By an agreement with him.

Q You don't get me?

A In other words, if the rate was 15 cents a barrel?

Q Yes?

A All right, I might want to charge him 30 cents a barrel until I get my line paid for.

Q You might want to charge him 30?

A Yes.

Q But knowing the conditions in Montana you would be legally bound to give the connection?

A But here I would get that back as a refund, not on the cost of my transportation.

Q You would get what back?

A My investment.

Q Well would you apply the whole 15 cents or 1 cent or what, to get it back in a year?

A I don't know.

Q You have no particular methods, it would be a guess?

A If you and I were doing that, Mr. Plotkins, it would be an agreement.

Q But if you were president or the manager of the company, and working for someone else to whom you are responsible, surely you must be guided by certain principles in evaluating

any particular business proposition which would come within the purview of the manager or the president of a pipe line company, and there must be in your mind, from your past experience, some definite, concrete method of evaluating those factors?

A Yes, putting in 1740 feet of 4 inch line, we will say that cost in the neighbourhood of $3500.00?

Q Yes? We will say it cost $3500.00, we will assume that?

A I would try and get that $3500.00 back within the year.

Q All right, on what basis?

A That would depend on the volume which you were going to put through.

Q No, but I will ask you to take a minimum volume and therefore you must.

A Well that is a difficult thing, Mr. Plotkins, to do.

Q Well now, you said $3500.00?

A I am just making a guess.

Q We will use that as the figure, am I wrong in suggesting to you that you would normally consider that all the revenue, the full pipe line rate could be applied to amortize that line in one year and you would be satisfied?

A No, you couldn't apply all of that rate to that portion of the line.

Q I know you couldn't normally.

A Because it cost you something to bring that down to that line.

Q But would you consider it for the purposes of business, that it would increase your through-put and, therefore, decrease your cost, your general cost of bringing that particular oil?

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A The more oil you can put through the pipe line the less your cost.

Q I am trying now to get you to see this situation, you are faced with a demand by a refinery?

A Yes.

Q That wants connection?

A Yes.

Q You have to weigh the matter, whether it is good business or not to give him that connection; in your own mind you are satisfied that it is not going to cost you any more to transport the extra 100 or 200 or 500 as the case may be, barrels per day, because you already have your overhead, you have your administration and your method of handling it?

A Yes.

Q In your own mind, would it not be the fact that you would visualize it in this manner "Well I can apply all the revenue of that delivery to that pipe line and after the first year if it pays for that connection it will be additional profits".

A It could be considered that way.

Q Would that not be the normal way for you under the circumstances to consider it that way, you have no other factors that you can use?

A As I said, Mr. Plotkins, I have never had a case of that kind, but I do not think it would be an unreasonable method to use.

Q So that that would be a plausible method ?

A Yes.

Q That gives us the basis.....

THE CHAIRMAN: I do not understand, perhaps I do not follow it at all, are you suggesting this, that you, the pipe line company, we will say, make the connection at

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your own expense?

A Yes.

Q That you get it back by allocating the year's operations to repay yourself, are you not fooling yourself, you have paid for the line and you are only getting a certain rate?

A Yes, but as I understood Mr. Plotkins, Mr. Chairman, was this that where the pipe line company refused to make that connection and the refinery put that connection in and we said "We will buy that connection from you after a certain number of barrels of oil have gone through there."

Q Oh yes, then you are still paying for the connection?

A After the amount is paid back.

Q What it really means is that you have paid for the connection but in the meantime you have ascertained that it is good business for you to have done so?

A That is quite so.

Q That is all it boils down to, doesn't it?

MR. PLOTKINS: It boils down to this, Mr. Chairman, that we have not been able to get some basis that the pipe line uses, and apparently they give it out by a rule of thumb and it would appear to me as a matter of good business in the nature of this operation, where it costs no more to increase the throughput on a line slightly, that the pipe line company would view it in the light that if they did apply all of the income the first year, having in mind that the refinery would be stabilized over a number of years, to the amortization of the connection, it would be considered good business.

A Well is that not more or less a hypothetical question, Mr. Plotkins?

THE CHAIRMAN: They are just applying their

own money.

MR. PLOTKINS: Yes, but there would not be any money to apply at all if the connection was not made and there is the possibility and the probability of continuing to deliver through to that refinery.

THE CHAIRMAN: But in essence, doesn't it boil down to, who should pay for the connection?

A That is right.

Q Whether you say you take it out of your pocket or take it out of the rate, where you get it from is no matter, it is is it good business, it would be a question of whether or not it is good business to pay for it, this delaying it for a year or so is only to see whether or not it has proven to be good business.

MR. PLOTKINS: Yes, I have in mind only the conditions where the pipe line company does not consider it justified for them to pay for the connection, and in that case only the refiner would put in his own line and if at the end of the first, in fact apply all of the revenue towards being reimbursed, in other words, the pipe line company would allow all of the 15 cents in this case to go towards paying back the line so that the first year's traffic would pay for it and after that there would be no question as to the reasonableness or otherwise of the pipe line company making that investment to give the connection.

THE CHAIRMAN: Well it seems to me at this stage you need hardly pursue the examination as to whether or not they should or should not make a voluntary agreement, because during the period of this Inquiry that has been sought and I would gather that both parties have tried to arrive at an amicable arrangement and have failed, so that

it resolves itself into a simple question of whether the connection should be recommended to be ordered, and if so, what should be recommended as to who should pay for it. That pocket they take it out of, seems to me quite immaterial if they are the ones to pay, and if you are the one to pay, where you get it from is immaterial, but this thing, it seems to me, boils down to that, Mr. Plotkins, and I do not think these witnesses, whether directly or indirectly related to the pipe line corporation, I do not think that you are going to get very far in effectively negotiating an agreement by way of examination when you have already failed by other means.

MR PLOTKINS: That is correct, Sir, that is all, thank you.

(Go to Page 6837).

Q Mr. Naylor, then just let me ask one question as to that. As the Chairman says the important thing is who, in the last analysis, has to stand the expense of this service line, this concrete one we are speaking about, the refiner or the pipe line company, in the last analysis?

A Well, if the oil to be transported through to the refinery, I would say if the refiner is going to get enough crude that the pipe line themselves would be willing to make that connection. Now in the case that the party receiving the oil cannot satisfy the pipe line.....

Q About what? Cannot satisfy the pipeline about what?

A That it would make a return to them on their investment.

Q You mean that they would repay for the expense incurred. Which do you mean, that they would repay the amount of the investment or that they would supply enough traffic to repay it?

A If they would supply enough traffic.

Q Enough traffic to what, to warrant the expenditure or so they would get back out of the traffic the amount expended?

A Possibly, Mr.Frawley, I could explain it in this way. In building a railroad siding, the railroad builds that siding for you as a rule, and you pay the cost.

Q When? At what stage do you, the factory owner say, pay the cost?

A When it is built.

Q When it is built?

A Yes.

Q The railroad company builds it and you reimburse it immediately before the traffic moves at all?

A Yes, and then they refund to you so much per car for that track.

Q You pay them much less in freight tolls?

A In other words, they refund to you, under an agreement, we will say $2.00 a car or $5.00 a car.

Q Until you have all been paid out?

A Until you have been reimbursed for the cost of that track.

Q In the last analysis the railroad company has stood the expense of building the spur?

A Right.

Q The factory owner certainly has not?

A Yes.

THE CHAIRMAN: They make deductions in freight and the money is paid out that otherwise would have gone into their pockets?

Q MR. FRAWLEY: It boils down, as the witness says, as to whether it would be good business or not, and what would be the volume. I will try and find out when does the time come under circumstances such as we have here when it is said to be good business. Now take the railway track for an example. If the railway company looked at the factory and thought they could not get the cost of the spur back for say 15 years, by these abatements in the tolls, would that be good business or bad business to put a spur in?

A Well the railroad. Will you say that again, Mr.Frawley?

Q The railway company and the factory man wants a spur. The factory wants a spur built?

A Yes.

Q And the railway company looks at the prospective tolls coming out of that factory?

A That is right.

Q And they cannot see themselves getting paid back for the cost of the spur for about 15 years, we will say?

A That is the railroad or the factory?

Q No, the railway. The railroad is going to pay back the factory man, but it is going to be so slow their money is going to be spent for about 15 years?

A Yes.

Q What do you....

A The manufacturer has paid the railroad for putting in the track.

Q Yes, he has paid for it in advance.

A Therefore the railway don't care when they get it back.

Q That is very simple. They will build at any time, under those circumstances, they will build it for any sort of a little factory. That is the result of that is it not? Compare that to this pipe line operation, and this refinery desiring a branch connection. If the refinery....

A I say if the pipe line company is assured that they are going to get revenue and that the connection is going to be a good connection to them, they certainly would put in the connection themselves.

Q That is the other way of looking at it. But first of all, as far as the - they will permit a connection then at any time if the refinery builds the connection and stands the expense?

A I would not say that.

Q What does it matter to them if it is not costing them anything for the construction of the service line?

A There may be a lot of things in connection with the operation of your line that you do not want another connection.

Q But put those things aside, there are no circumstances of that kind, and the refiner is willing to pay. Should

there be any further difficulty about giving a connection?

A If he can give you a responsible - if he is responsible I would say go ahead.

Q Let him put it in?

A Yes.

Q And he puts it in and spends $3000.00, on whatever basis it is, he gets that returned to him does he?

A If that is the way you wanted to work out your agreement, Mr. Frawley.

Q Would that be the customary thing. Would that be proper?

A I have not seen it worked.

Q You have said already you see no reason why it should not work out, like the railway case you have given me?

A I cited that as a hypothetical example of what Mr. Plotkins was trying to bring out, as I understand.

Q Do you see any reason why the same situation as exists between the factory and the railroad there, the factory building their spur and incurring the original expense and being repaid out of rolls, do you think that that is a reasonable thing to expect from this pipe line operation?

A Well the pipe line, Mr. Frawley, would prefer to own all its own facilities.

Q Let us approach it from that angle. Under what circumstances and at what stage should a pipe line operator decide that he will build a connection?

A After he has been satisfied of the volume and the responsibility.

Q Let us be concrete again. He can satisfy him in this instance as I understand the evidence, that he can take an average throughout the year of 500 barrels, or 365 times 500 barrels?

A Yes.

Q He can expect that much traffic in the year?

A Yes.

Q More on some days than others?

A Yes.

Q If you operated this pipe line what would be your attitude to that application for a connection? That is what I would like to know?

A Well, I would put it this way, if anybody came to me when I was president of the Montana pipe line and offered me business that was going to be of benefit to me I would certainly take it on.

Q Let us bemore concrete. That business I have just suggested to you?

A Well I would want to know more about the circumstances surrounding the actual conditions.

Q What else would there be now? That is the volume of business and that is the way in which you are going to get it. What else of any great importance would there be you would have to know?

A The responsibility of the party and how much he is going to get.

Q Let us assume that. I have given you his traffic?

A Yes.

Q What would be your decision?

A Personally if I was operating a pipe line and I was looking for the business I would take him on.

Q May we take that now as your final view about this, to assist this commission? That under those circumstances you would take this particular refiner on?

A Yes.

Q And would you incur the capital expenditure and is that

the last we would hear about that? Would the refiner under any circumstances be asked to pay you back that capital investment?

A No, not under those circumstances.

Q Then only one other thing. That would be an addition to the capital you would have invested in your line?

A That is right.

Q Which you would like and expect to have returned?

A Correct.

Q And you would regard that, I assume, just as if you were building additional gathering lines to a new well?

A That is right.

Q There would not be much protracted negotiations about whether you would build a gathering line to a new well?

A No.

Q You would just go out as a matter of routine?

A That is right.

Q And put in the gathering line?

A Yes.

Q Is there any real distinction between that and giving a service line to a refinery at the other end of the system?

A Yes, there is a distinction between the two.

Q Well, wherein lies the distinction and how vital is it?

A Because you are producing a natural resource. You are trying to develop that natural resource and that is going to produce as long as there may be a market for it.

Q Yes?

A But on the other hand the refiner might go out of business in six months or a year or something of that kind.

Q Well you would have to run a certain amount of risk?

A You would take a chance in any business, Mr.Frawley.

Q So that we can relate this to what we called yesterday the rate base, and with respect to which there seemed to be a lot of confusion in Mr. Hull's mind, if that service line had been built before the rate was submitted to the scrutiny of the regulatory body, then that capital expenditure involved in the service line would be in the capital investment of the comapny?

A That is right.

Q And it would be in what we call its rate base?

A That is right.

Q And therefore, upon that as well as upon all other capital assets they would be entitled to receive a return?

A That is right.

Q That is for things in the past, but when we are looking into the future the matter is taken care of, I assume, by simply giving them an allowance in the rate, giving them a certain number of decimal points in the rate to take care of future capital expenditures whether they be for gathering lines or for service lines or anything else.

A Possibly I did not get that quite right, or get the question.

Q Where does the company get the money - remember it is a public utility, strictly a public utility, and its rate is fixed by a regulatory body after examination of its capital assets, its operating costs and a proper rate of return and so on?

A Yes.

Q Like a gas company in other words?

A Yes.

Q Would those capital additions for service lines not be taken care of by simply an allowance in the rate to provide the

money to make those capital expenditures. Is that a simple way in which it could be done?

A If I understand the question, Mr.Frawley, in other words you have put in your pipe line and you have gotten certain gathering connections?

Q Yes?

A Now you are going to put in an additional gathering line?

Q One this year and perhaps two more the year after?

A That goes into your capital, and out of the revenue that you receive you are supposed to pay for that.

Q You take care of that?

A Yes.

Q Now you say that it could very well be that the tank trucks could be loaded out of the same tankage as tank cars?

A They could be but it is not practical.

Q The practical thing then, you say, is to have a tank to load tank cars, and a smaller tank presumably to load tank trucks?

A That is what we did.

Q But in the figure you have given us, of roughly 15,000 barrels, that is the total storage required, and you would suggest that a small portion of it be put into a small tank and the balance into large tanks?

A It would all depend on what the conditions were.

Q THE CHAIRMAN: Now let me get that right. We have 15,000 barrels of storage?

MR. FRAWLEY: Yes.

THE CHAIRMAN: As I understood the witnesses it is desirable to have that in two tanks?

MR. FRAWLEY: Yes, even if you are only loading

tank cars alone.

THE CHAIRMAN: But he suggested three tanks?

MR. FRAWLEY:- It has been suggested for the tank car movement alone, which is 95% or more than that of the movement, as between tank cars and tank trucks, that there should be two tanks used for convenience sake?

A Yes.

Q Two tanks to look after loading into tank cars?

A Yes.

Q Do you agree with that?

A Yes.

Q If that were so, is it, as the Chairman suggests, is it your suggestion that there should be, if tank trucks are going to be taken care of, a third smaller tank to be constructed?

A I made that statement that it is not good business and in fact you would get into a lot of difficulties if you were loading into tank trucks through another line while you were still loading into tank cars through another line. The tank trucks might come in there while you are loading tank cars.

Q And you might have to take care of both of them simultaneously?

A Yes.

Q You would not want to do that from the same tank?

A No.

Q THE CHAIRMAN: Does that involve a third tank?

A Yes. One small one.

Q Let us hear about that, if you please. If you do not mind, Mr.Frawley. The sizes?

Q MR. FRAILEY: Let us have the sizes? We have a maximum of 15,000?

A Anywhere from 100 to 250 barrels.

MR. NOLAN: May I be excused in interrupting? I have been telephoning Mr. Moore to find out what the maximum week was as opposed to the maximum day. He gives me a figure of 14,418 barrels for the maximum week, for tank car shipments.

Q THE CHAIRMAN: That is tank cars?

MR. NOLAN: Yes. We do not load to tank trucks now.

MR. FRAILEY: 14,000?

MR. NOLAN: 14,418.

MR. FRAILEY: All right, 14,400.

MR. NOLAN: That, of course, is to independents only. That is understood?

MR. FRAILEY: Yes, and if we continue the rule of adding 20% to that, then Mr. Moore would really need 17,200 barrels storage to take care of tank cars.

Q THE CHAIRMAN: Tank cars? Now we add 700, wasn't it, for tank trucks?

MR. FRAILEY: Yes. That is unless we give him an additional..... unless we expected to take care of tank trucks out of that. That is true.

THE CHAIRMAN: Let us get it all. We know he has to have 14,418 barrels. That is the maximum week?

MR. FRAILEY: Yes.

THE CHAIRMAN: Now your maximum on the evidence of tank trucks?

MR. FRAILEY: That is 700.

THE CHAIRMAN: 700, yes. That is 700 more.

Then add your 20% and tell us what it is.

MR. FRAWLEY: I wonder if we should add the 700.

THE CHAIRMAN: You are going to keep that separate and get one tank for that department.

MR. FRAWLEY: Yes. Let us be clear with Mr. Naylor. You only regard this smaller tank to look after tank trucks?

A As a loading tank.

Q What you would call working storage?

A That is all.

Q Let us hear from you while you are on the witness stand, assuming Mr. Moore's maximum week, biggest week, was 14,418 barrels into tank cars - into tank cars alone - and that he does not expect to load any more than 100 - that is his estimate - 100 barrels per day into tank trucks. Do you think that 17,240 barrels, which is his 14,400 - I have dropped the 18 - but 14,400 plus 20%, that comes to 17,240 barrels of storage. Do you think that should be enough of storage. Putting aside this working business for the moment, should that be enough for him to take care of his tank cars and tank trucks?

A Yes.

MR. NOLAN: You should make it clear to the witness you are averaging the tank truck loadings.

MR. FRAWLEY: When I say 100, oh yes, that is the average. Nobody knows what the business is going to be.

MR. NOLAN: One day it might be much greater.

MR. FRAWLEY: That would be 10 trucks of the smaller size and only four or five of the bigger size. Essentially, we have to do a certain amount of estimating. I am personally glad to get Mr. Naylor's view that he things 17,400 barrels of storage should enable Mr. Moore to look after both classes of business. Then you say for working purposes that should be divided into three tanks?

A Yes. But one small tank, Mr.Frawley. Just one that might be set up on a platform and as your tank truck came up you just turned the hose into it. You say the tank trucks are all officially gauged. When it is full....

Q No gauging equipment involved, and they could supply its contents by gravity?

A You would have to have your equipment. You would have to have it so that it would be a protection to you.

Q You agree with the other witnesses there should be two tanks for practical purposes to load into tank cars?

A Yes.

Q And a third one working on platform storage to supply tank trucks?

A Yes.

Q Now give us your approximate idea of the sizes?

A Usually tanks run in 250, 500, 1000, 2000, 3000, 5000 and so on. But I would say if you have two 10,000 barrel tanks you would have 20,000 barrels.

Q If you had two 10,000 barrel tanks?

A That gives you 20,000.

THE CHAIRMAN: And what about the little one?

A As I said about 100 or 150 or 200 barrels.

Q MR. FRAWLEY: We will say 200 barrels?

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A Yes.

Q Of course, then we have 22,000 barrels of storage?

A You have 20,200 barrels of storage,

Q 20,200, that is right?

A Yes.

Q That is more than he needs, but you say for practical purposes.....

A As I say usually there is no 8000 barrel tanks, and the 10,000 barrel tank.....

Q It would be splitting hairs to get down less than that?

A Yes.

Q THE CHAIRMAN: The cost?

Q MR. FRAWLEY: Can you give us an idea of what these things cost?

A No, I have not seen the cost for some time on those, Mr. Frawley.

Q Now, Mr. Naylor, I was struck with something you said that was only just an opinion. You said that 2½ cents per barrel should be sufficient to look after loading into tank cars. That was customary and you thought sufficient?

A That is the customary charge in the tariffs, Mr.Frawley, in the States.

Q Then you just doubled that in giving your view as to what should be charged for loading into tank trucks?

A Well it is just an arbitrary figure. The additional equipment you have to put in and you have to provide a place for the trucks to come in and get out, and the inconveniences, and the small quantities that are delivered, I just took a shot at 2½ cents.more, making her 5 cents.

Q I quite agree, it is not an operation on which it is expected that the refiner, if it is the refiner, will make very much money although it seems to be a situation that requires to be taken car

of for a small refiner that wants to take its supplies in tank trucks.

A. That is

Q I just wondered why you thought that. That would really be, or you would really suggest then 5 cents, 4½ to 5 cents, for loading into tank trucks, and 2½ cents for loading into tank cars?

A Yes. And you would have to take into consideration your volume on those figures.

Q THE CHAIRMAN: With the simplicity of the operation he describes, can you see why he says the rate should be doubled? You have a small 250 barrel tank. Clarify that. Perhaps, there is a good reason for it.

MR. FRAWLEY: The reason I did not like to follow it too far was because he did not give any reason for it?

A I said I just picked it out of the air.

Q It certainly is a horseback figure, I would say.

Q Well, we have never done any of it, Mr. Frawley, and it is just a figure, that is all.

Q You feel that the company certainly would be perfectly safe if they doubled their rate on tank trucks, but we would like to get something closer than that, because this Commission has to recommend what the rate should be.

A Well, you would have to take into consideration the cost of the equipment, Mr. Frawley, you would have to put in to do it.

Q Just a little tank, and the same employees could do it, couldn't they?

A I do not know. If you have the employees loading your crude oil into tank cars you could not take them off that to load tank trucks.

Q No. I do not know what the operation is. You should know. Would not there be a certain amount of inter-

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changing of employees there, looking after these loads, having in mind the very little quantity loaded?

A If you get a truck loaded with 25 barrels and you get 5 cents, you get a dollar and a quarter. And supposing it takes you an hour and a half to do it.

Q Should it take an hour and a half?

A Well, I do not know. It all depends on conditions. All right. What is the value of your man's time? And then compensation on your requipment.

Q This is just a surplus operation, is it not?

A Yes.

Q It is just extra?

A Yes, but you have to have a man to do it.

Q But not necessarily a man who is only loading tank trucks?

A All right, but if the other men on the plant are working the full time and a tank truck comes in, you have to get him.

Q We could, perhaps, go round and round about it. But it struck me to double it seemed to be steep?

A Well, you get a dollar and a quarter for loading a truck of 25 barrels.

Q THE CHAIRMAN: The previous witness, who has had very wide experience, said while it probably would cost csomething more to load tank trucks, if you got down to a figure in dollars and cents it would be so far into the fractions as to be negligible. You are suggesting it should be doubled up. I mean

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these two estimates, whether you call them guesses or not, are so far apart that to an inexperienced man it is strange.

A Well, as I say, Mr. Chairman, we have never done anything of that kind. You would have to find out what additional equipment and additional time, and so forth, it would take. I figured 2½ cents might be entirely out of line. I am not suggesting that as a positive figure at all.

MR. FRAWLEY: Very well, Mr. Naylor, I do not think there is anything more.

Q MR. PLOTKINS: Mr. Naylor, as a general rule, in your duties you do not concern yourself with costs?

A With costs?

Q With costs. Yes, I mean in establishing rates and determining what establishes that rate, is not that done usually by your head office?

A Well, I will tell you, the head of any institution necessarily has to look at costs.

Q Yes, but you in your duties as manager----

A Certainly, I look at costs.

Q Well, you endeavour to the best of your ability and through your employees and subordinates to reduce the costs yet you are not directly concerned, I mean you are not directly concerned with the normal set-up in the first instance. That is determined by the head office?

A Well, Port Huron is the head office.

Q In a case we will take your own pipeline, your company

is a subsidiary of the Imperial Oil?

A Yes.

Q So that the operations originate usually from the Imperial Oil. In other words, the crude you would move directly or indirectly would be either the property or purchased for one of the Standard Oil of New Jersey subsidiaries, in the main?

A We are purchasing for the Imperial Oil.

Q So that the Imperial Oil, when it has set up that pipeline, cancerned itself either directly or through its parent company with the profitability or otherwise of that operation?

A Yes.

Q So that in the main all you are called upon to do is to operate to the best of your ability at the lowest possible cost?

A That is right.

Q MR. NOLAN: It has been suggested to me that when you were speaking about loading tank trucks you said that, perhaps, there was not a receiving or loading tank necessary for that operation if the crude were metered. Is that right, Mr. Naylor?

A How is that again?

Q In loading tank trucks if you used a pump and meter you would not need an auxiliary tank or a receiving and loading tank?

A I probably want to qualify that in this way, Mr. Nolan, th t, as I said before, it is not good practice, and it is not customary operation to load out of a tank into tank trucks while you are loading into tank cars.

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Q Yes?

Q THE CHAIRMAN: That only involves the 200 barrel working tank?

A That only involves the 200 barrel tank.

Q MR. NOLAN: The point I was trying to make with you, Mr. Naylor, was, do you know whether difficulty exists up here in metering this crude oil, that it has a wax content?

A No, I do not.

Q You told counsel for the Commission that you were not familiar with the cost of this tankage. It seemed to me somebody told us once during the course of this Commission that tanks installed cost $1.00 a barrel?

A They vary, Mr. Nolan. As I say, I am not familiar with the present costs. But depending upon the size of the tank , they might run anywhere from 50 cents to $2.00 a barrel.

Q And the smaller the capacity of the tanks the more expensive they become?

A That is correct, the more per barrel.

Q What would this meter cost, which you were discussing?

A A good meter would probably cost about $700.00.

THE CHAIRMAN: Any more questions?

MR. FRAWLEY: No, that is all. Thank you, Mr. Naylor.

(At this stage the Hearing was adjourned until 2:00 P. M.)

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2 P. M. Session

THE CHAIRMAN: Mr. Nolan, have you received instructions as to the statement you were to make?

MR. NOLAN: On the question of policy, yes, I have, and may I give it to you now, Sir.

THE CHAIRMAN: Please.

MR. NOLAN: The policy I am instructed to enunciate is that it is contemplated to sell crude to any bona fide purchaser such surplus of crude as we control and which may not be needed for our own Imperial requirements at what we call the average weighted tank price, based on the posted field price and subject to the transportation, delivery and handling charges and regulations fixed for the pipeline, provided that the purchaser make satisfactory financial arrangements for payment.

I am also instructed to say that this policy should not be regarded as a hard and fast one, and without limit as to time, but as being subject to revision to meet conditions as they arise, although at present we see no reason for deviation. Otherwise we would, in our opinion, be discriminated against as being tied to a stated policy while other owners or producers of crude remain footloose.

Now I think that is what the Commission would have from me, because in the first instance I talked about the posted field price, transportation charges and handling charges, and the Chairman put it to me the other day "Is there any change in that". Well you see, Sir, there is a slight change but it is in connection only with the price to be paid in the field, and this statement of policy says that we are prepared to pay the average weighted tank price based on the posted field price. Now

that is a new element. I understand there was some discussion about it in the East and I think both my learned friend Mr. Frawley and Mr. Cottle are familiar with it. There is no difficulty about it at all, and perhaps I can explain it to you. The purchasing company or companies will continue, as in the past, to pay the producer of oil for the oil at the particular gravity at which it is produced. That thing which he produces he gets paid for and then the idea is that the purchasing company or companies will place in common tankage all crude produced, and determine the average price by dividing the number of net barrels for which the pipeline is responsible for delivery to Calgary into the total money paid for those total barrels covering purchases made each month, thus arriving at an average price in the common tankage in Turner Valley, and in order to make it clear, if I was to be asked to explain it, I have prepared just a brief statement which may be of some assistance to the Commissioners.

MR. FRAWLEY: We might mark it as an exhibit.

MR. NOLAN: It need not be an exhibit. This is to explain what I have been calling, sir, "the weighted average price" of the Turner Valley crude. You will observe in the left hand corner the gravities, and they vary of course as to the oil produced by the producer and then there are the certain number of barrels for which the pipeline company is responsible. Now each of those gravities, take the first one, the 40 gravity, has a certain price per barrel according to the prices which are posted, and so for those 40 barrels we would have, rather these 99 barrels of 40 gravity, there would be a price of $1.14, and we carry out into the final column the total

amount for all of those barrels at that price per barrel, and then, Sir, we add together the total number of barrels and divide into the total number of dollars and cents represented by the price of those barrels having regard to their particular gravity and we get down to the bottom, the figure of $3,381.84 divided by 2772 barrels, which gives us the weighted average price of Turner Valley crude, and that is what is known as the weighted average price.

Now it is said to me, or my instructions are, that this is a very fair way of doing it, and that it is one that should work out, so when I make the statement as to policy I have to begin not with the posted field price but with this weighted average price of Turner Valley crude. That is the only deviation.

MR. FRAWLEY: Yes, but Mr. Nolan, there is a very good reason why your Company has instituted this and you might tell that.

MR. NOLAN: The reason is to get rid of this difference in gravity and to bring them all down to a common denominator, of a common average in the field, and it gets rid of the difficulty that exists by reason of the difference in gravity of the different oils produced.

MR. FRAWLEY: It was pointed out to me that you might be selling to the British American Oil Company and taking a loss which would seem to be unwarranted by virtue of the fact that the gravity had gone down. You had probably paid for the oil on the basis of 43 gravity and when you were turning it over to the British American it was 42, and you would only be paid for 42, and so this scheme was worked out, which Mr. LeSueur said was in vogue in the Mid-Continent field as being the fair way to sell the

oil, keeping always to the same method of purchasing at the particular well gravity.

MR. NOLAN: That is perfectly clear, that the man who produces the oil at the well gets for his oil whatever the gravity demands he should get.

THE CHAIRMAN: I think we will mark this, Mr. Nolan.

MR. NOLAN: And it is pointed out to me under this scheme each refinery will be paying precisely the same price and there will be no difference in the price paid.

MAJOR LIPSETT: Your present posted field price is based on 43 gravity, $1.20 is the posted field price.

MR. FRAWLEY: No, there are 10 posted field prices, the posted price is a schedule.

MR. NOLAN: Varying 2 cents for each difference of 1 degree in gravity.

THE CHAIRMAN: And your statement varies also, does it not, Mr. Nolan, in that you will, I think, very properly change it to say that you will deliver not just at the present handling charge, but at the charge that may be fixed in respect of handling, whether in the whole rate or not, by a body competent to fix it.

MR. NOLAN: Subject to whatever transportation, delivery and handling charges and regulations which are fixed.

THE CHAIRMAN: Yes.

MR. NOLAN: That is what you, the Chairman, wanted from me.

THE CHAIRMAN: Yes, I think that is it, that makes something quite clear that is important.

MR. NOLAN: Now if I may have a moment-----

THE CHAIRMAN: Will you check with Mr. Cutler and make sure of the statement which you have given and which is directly on the record, because it may be important some time.

MR. NOLAN: I will.

THE CHAIRMAN: Mr. Frawley, you will have Mr. Nolan's statement brought to the attention of Mr. Harvie.

MR. FRAWLEY: Yes.

THE CHAIRMAN: To see if he is authorized or if he can get it, to make a similar statement.

MR. FRAWLEY: I will do that. I will ask to have a copy run off.

(STATEMENT PRODUCED BY MR. NOLAN MARKED AS EXHIBIT "252").

(Go to number 6860)

J. G. GEMMELL, recalled,

Q BY MR. FRAWLEY: Mr. Gemmell, you are already sworn. You are the Secretary of the Anglo-Canadian Oil Company?

A Yes, and associated companies.

Q And you were asked the other day to endeavour to ascertain from your records how much loading for Saskatchewan the Imperial Oil did for you in 1938, or for Manitoba, rather?

A I have a document here, Mr. Frawley, which you can use as an Exhibit, showing the tank cars per day, and also a re-cap.

Q You have a statement here headed "Anglo-Canadian Oils Limited, Brandon, Manitoba, Statement of Cars Loaded at Imperial Oil Yards"- that is, at Calgary, of course?

A Yes.

Q During 1938, and starting with the 23rd of May, and ending with the 28th of October. I will only look at the totals. I find during that whole period 349 cars were loaded at the Imperial and shipped to your refinery at Brandon?

A That is right.

Q The total barrels were 68,309.65 barrels. I will just run through each month by month. In the month of May, well, the period is May 23rd to June 14th, 69 cars, 14,344.97 barrels. The period June 15th to June 30th, 11 tank cars, 2,259.60 barrels. In July, 14 tank cars, 2,832.12 barrels; in August, 121 cars, 23,723.79 barrels; in September, 94 tank cars, 18,422.75 barrels, and in October, 40 cars, 7,726.42

barrels. Now, that is all that there were. And I notice in your recapitulation you put in the months of November and December, 1938, and January, 1939, but they are blank, both as to barrels and cars.

A There were no cars shipped in those months.

Q You just completed them to show the period?

A Yes.

Q There were no cars shipped after October, 1938. When did the movement start in 1939?

A It started in March.

MR. FRAWLEY: I would file this as an Exhibit, my Lord.

(DOCUMENT IN QUESTION IS NOW MARKED AS EXHIBIT "253".)

Q Did you have some figures for 1939?

A No, not for 1939.

Q You have not any movement for 1939?

A Roughly, there were about 18,000 barrels moved last months to Brandon, or in March, I should say.

Q That is all the evidence you were expected to give with respect to the pipeline matter, the loading matter. There has been a figure put in evidence here as to what your estimate is of the amount of crude that you might move through these facilities to your refinery in Brandon during 1939?

A That will be a very difficult matter to determine just at the present time. But we expect during the month of May to move between 25 and 30 thousand barrels to Brandon.

Q About 25 cars, perhaps ?

A Well, yes, more than that. The average car, tank car,

takes about 192 to 197 barrels.

Q Well, make it 200?

A 200.

Q How many did you say?

A 25 to 30 thousand.

Q Well, make it 30,000. You might move 150 cars in the month of May?

A Roughly, yes.

Q That is all. Now, Mr. Gemmell, I do not want to bring you back, because you are a busy man. The only other thing you had to do for us is to file a statement of production costs, that was left unfinished when you were here with Mr. Smith the other morning?

A Yes.

Q You will just file this as an Exhibit?

A Yes.

(DOCUMTN IN QUESTION IS NOW MARKED EXHIBIT NO. "254".)

Q Now, why is this sheet on top, the West Flank Oil Company Limited?

A Well, we did not have room to put it on that.

Q It really follows on?

A It really follows on.

Q Then reading the second sheet first, it says, Statement of Costs of Leases and Drilling and Production Expenses as of March 31st, 1939, for the Associated Companies of Anglo-Canadian Oil Company Limited, and these companies being as shown on the second large sheet, Foundation, Monarch, Prairie, Firestone, Spy Hill, Sun Dance, Frontier, and Coronation, and then following on, it is really a continuation?

A It is really a continuation.

Q West Flank 1, West Flank 2, West Flank 3, and the West Flank Oil Company?

A Yes.

Q Can you tell us just in a word what these costs work out at in cents per barrel?

A We have not arrived at any particular cost per barrel, Mr. Frawley, for the reason there are too many undetermined factors enter into the cost of determining the cost of producing a barrel of oil. In the statement I have qualified that in regard to leases.

Q Yes, I see. The statement contains a notation which indicates the difficulty and impossibility of arriving at the precise cost per barrel?

A Yes.

Q But the statement contains, nevertheless, all the information that your company feels it can usefully compile with a view to showing what its drilling and production expenses have been?

A Yes, Sir.

TO MR. NOLAN:

Q I was going to ask you, I did not quite remember, but you say you shipped in 1938 part of your production through Okotoks?

A Yes.

Q That is not-----

A That is not included in these tank cars I have submitted in that statement.

Q But this year, in 1939, it will be included in what

you ship through the pipeline?

A Well, we are not shipping direct from Okotoks this year at all so far.

Q In other words, it is all going to go through the pipeline?

A It is all going to go through the Imperial.

Q Have you taken it into consideration in giving us an estimate of what you are going to move this year?

A You mean in regard to the present month? That will all go through the Imperial yards, or the loading platform at the Imperial yards.

Q You said it would be 25,000?

A Yes.

Q Does that include what went through Okotoks?

A There will be nothing in May of this year going through Okotoks.

Q It will all go through Calgary?

A It will all go through Calgary.

Q And the figures you gave us include what went through Okotoks last year?

A Oh, yes.

Q MR. COMMISSIONER LIPSETT: Mr. Gemmell, there is one matter cropped up with reference to a witness from your company a few days ago with reference to whether the loading charge should be separate at Calgary, or whether it should be included in the general rate. He told us that, speaking for himself, he said the fair thing was that it should be additional to the transportation rate. I wonder if you had any views on that as to whether it should be in the all-inclusive rate?

J. G. Gemmell.

A We would prefer it to be in the all-inclusive rate.

Q You differ from-----

A I differ from him, yes.

Q Have you any statement or reasons that you can give on that?

A Well, it would save our refining organization quite a considerable amount of money at Brandon, and looking at it from a selfish point of view, naturally we would say the inclusive rate would be better for the organization.

Q THE CHAIRMAN: Have you any reasons to advance why it would be the fair thing to do?

A No, I was giving my own opinion and a selfish opinion. But from an equitable point of view-----

Q That is what we want?

A I think possibly it should be a charge to the consumer. The loading charge should be a charge to the consumer.

Q MR. COMMISSIONER LIPSETT: A separate charge?

A A separate charge.

Q MR. FRAWLEY: The consignee, you mean?

A The consignee, yes.

Q MR. COMMISSIONER LIPSETT: You make a distinction in equity from the complete operation at Turner Valley where everything is covered and included in the rate?

A Yes.

Q You think at the Calgary end there should be a separate loading charge for-----

A For some other organization outside of the pipeline

company. Naturally, they have expenses to take care of loading. They have to provide facilities for loading.

Q Assuming that the facilities are included in the public utility, you still think this should be a separate and additional charge, do you?

A Well, it would almost seem reasonable there should be an additional charge.

Q I just thought we had better have your views as well as the other witness?

A Of course, as I say, from a selfish point of view we would very much rather have it included.

Q MR. PLOTKINS: I notice in the statement that you have presented, Mr. Gemmell, that it says here "Less gross royalty", and there is various figures under that head for each well?

A To which do you refer, Mr. Plotkins?

Q It says here on the second sheet, there is a deduction here for gross royalty, or "less gross royalty", rather?

A Yes.

Q In the case of Foundation the figure is $68,592.44, and I notice in all the other wells the figures vary, I assume the percentage of gross royalty varies from well to well?

A It varies from well to well, yes.

Q So do you consider gross royalty as an expense in this statement?

A No, it is part of the cost of the lease.

Q It is part of the cost of the lease?

A Yes.

Q So that we must read, we must add to the cost of the

J. G. Gemmell.

leases, as you have them on the top line, the value of the gross royalty over and above the Government royalty as the cost of the lease?

A Yes.

Q So that in the case of one well you might have 15% gross royalty and in the case of another well you might have 20%?

A 20%, yes.

Q Has it occurred to you from the cost of production standpoint the fact that the ownership of the interests outside of the Government royalty is divided, that for practical purposes the cost of producing is not affected by who owns the production?

A I just did not quite get you there, Mr. Plotkins.

Q We will assume that you have a particular lease, Prairie, for instance, and you choose to sell 30% gross royalty in order to finance, and the Government gets 10% gross royalty ounder the present laws. Now, that would make a deduction in this statement of 40% that would, in your opinion, be the cost of the lease?

A Yes.

Q Now, why is it the cost of the lease. You choose to finance your operations through the sale of royalties?

A Well, it might be determined through the mechanics of accountancy.

Q But the effect of it is, if you choose to sell it all in royalties, it would not all be deductible as an expense?

A While we are showing it in that manner it is not shown as an expense. But it is an amount which, from production, we are under agreement to set aside for the

part payment of the lease.

Q But, Mr. Gemmell, you make a deduction of that gross royalty and, therefore, it is reflected in the cost of producing a barrel of oil?

A No, we show it here to show the net production which is available to the company.

Q So if you follow this statement of the cost of producing a barrel of oil, would not that be your major cost, the fact you have deducted from your gross production the gross royalties?

A I do not quite get you, what do you want to arrive at?

Q If you produced 100 barrels of oil at a particular well?

A Yes.

Q Because you have committed yourself in order to produce that oil to deliver 25 barrels to various owners outside of the Government, you then proceed to calculate your total cost of operating, including drilling and so forth, but not on the 100 barrels less the 10, which is all the Government gets, but on the 100 barrels less the 25?

A Yes.

(Page 6879 follows.)

Q Which means that you try to spread your costs over 75 instead of over 90?

A Yes, well of course it will come to the same thing if you add that on to the cost of your lease.

Q Are these leases,I am talking now, not from your own company's standpoint because that is the usual thing in connection with drilling companies, I am talking now from the point of view of determing what it costs to produce a barrel of oil?

A We say it is not possible to determine the cost of producing a barrel of oil.

Q You say it is not possible?

A Not to determine that cost.

Q Why?

A Because there are so many unknown facts, you do not know how much oil is in below the ground.

Q True, but you have, before you start to drill that well, you have had the services of your different departments to advise you as to what the chances were of getting oil and how much?

A No, not how much.

Q Not how much?

A No.

Q You have not tried in the case of your company to determine what the chances were of an average?

A No, I do not think you can, I do not think any person can determine that, not even the production engineers today can determine what oil is in below the ground even after the well is producing, at least they cannot arrive all at the same conclusion.

MR. PLOTKINS: Well we will have to leave that for later on, that is all, thanks.

MR. HARVIE: Mr. Chairman, if I might interrupt, I understand it is your wish that I supply you with a statement along the same lines as Mr. Nolan.

THE CHAIRMAN: Yes.

MR. HARVIE: I have not got the statements completed, the reason being that Mr. Gaby was enroute West at the time and there has been a little delay but I think I can have it before we close and if I can be excused I will proceed to get that.

THE CHAIRMAN: Very good. You appreciate now the variation in the statement now made by Mr. Nolan?

MR. HARVIE: I can when I study it.

SAMUEL COULTIS, having been recalled, examined by Mr. Frawley said:

Q Mr. Coultis, we find that we would like to have and perhaps it is almost essential that we have, the cost, the capital cost, at least, first involved in the tankage which, according to the evidence, will be necessary to maintain and operate for the purposes of loading into tank cars and tank trucks and so that you may know what the evidence has been in that respect may I say that the witnesses seem to be agreed that there should be capacity storage for six, for seven days, for a week's movement and that the last piece of evidence we have in that respect was that the maximum week's storage, the maximum week's movement to independents by way of tank cars was 14,418 barrels and Mr. Naylor this morning put it to us that the practical erection would be 10, 2-10,000 barrel tanks to look after the tank car movement and a small working tank of about 200 or 250 barrels?

A Yes.

Q Now assume with me that that is the storage, storage of

that kind that the Commission is interested in, will you give me an idea of what the cost will be?

A Set up as a going tankage?

Q Yes?

A Ready to run?

Q Yes?

A I would lump the whole thing in at $1.00 a barrel.

Q So we have now a capital cost of $20,200, $20,250?

A Yes.

Q For tankage?

A Yes.

Q And that is upon an estimate by you of $1.00 a barrel?

A Yes.

Q Now to be clear about that, we did get from Mr. Plotkins the other day some much lower figures, did we not?

A Yes.

Q And that was on what basis?

A On an assumption that you could pick up second-hand tankage which I am not assuming.

Q You are making no such assumption but you are telling us what you would have to pay if you were requested to go out today and to erect that storage without any particular delay?

A Yes, if I were asked to erect that storage by my company I would expect to expend that much money by the time I had it a going-concern, sir.

MR. PLOTKINS: Mr. Frawley, I didn't have in mind a 10,000 barrel tank. I said storage of 80,000.

Q MR. FRAWLEY: Now then of course can you give me any idea about the cost of operating that storage as distinct, maintenance and operation of the storage, as distinct from the loading racks and loading facilities?

A Just to operate the storage tanks?

Q Yes?

A Well it would be a rough guess here, sir, it would mean maintenance and the heating, the heating would be the greatest I would assume in the winter, plus your gauging.

Q Yes, and you would say----

A Well I prefer not to hazard a rough guess. If Mr. Moore is coming on the stand I am sure he would be prepared to give you a better figure than I can.

Q For the same sort of work?

A Yes.

Q The same operation and maintenance of storage tanks?

A Yes.

Q As separate from loading racks?

A Yes.

Q You think he could do that?

A I believe he could.

Q I think then that is all you can help us on at the moment. Mr. Coultis, if we were interested in 50,000 barrels of storage, would your dollar per barrel still apply?

A It would be slightly under that.

Q It would be slightly under that?

A Yes.

Q Would you care to give us, the figure which you gave us in Exhibit "240", 3-40,000 barrels riveted steel tanks for crude oil with all the appurtenances, was $120,000, that is on the basis of $1.00 a barrel?

A That is on the basis of $1.00 a barrel, it is very close in there, it depends on the price of steel at the time you

order your tanks.

Q That is for 3-40's?

A Yes.

Q Now then I notice that immediately under that in Exhibit "240" you have given an estimate on 3-20,000 barrels riveted steel tanks with the same appurtenances, $75,000?

A Yes, that is assuming that the valves and fire equipment and fire walls and foundations would very closely total the same amount of money for all the fittings and would run relatively higher per barrel than it would on larger tanks.

Q I am not clear, for the $20,200 which you have just given us, you say a dollar is enough?

A Yes.

Q Is that the same kind of installation which you have in mind in Exhibit "240" for the 3-40's and the 3-20's?

A The same construction of tanks, it would be a strong tank.

Q Yes?

A On this loading, on these smaller tanks I would use lighter steel.

Q I see, that is why you bring the price down?

A Yes.

Q It is still a dollar for the 3-40's?

A Yes.

Q But it is $1.25 for the 3-20's?

A Yes.

Q In your Exhibit "240"?

A Yes, assuming that that is the same type of steel and the same weight of steel in the two tanks, the two types of tanks you have there.

Q Yes, that is right?

A And the fittings and the fire equipment would be the same in both types of tanks in that instance.

Q But then you are giving us a calculation today for a slightly difference sort of tank?

A A light tank, yes.

TO MR. NOLAN:

Q I want to ask you, Mr. Coultis, when you say your tank is ready to run, a going-concern?

A Yes.

Q You mean it has the necessary fire walls?

A Yes, the necessary fire equipment for using foam; that means foam chambers attached to the tank and all foam lines connected together with vents and snubbers, draw-off lines and charging lines, or a charging line.

Q Would it have the necessary valves?

A Yes, everything necessary to operate.

Q And the steam coils?

A Yes, the steam coils, field connections and pipes.

Q I did not understand what you said to Mr. Frawley, you said a 40,000 barrel tank mentioned in Exhibit "240" should cost ready to run a $1.00 a barrel?

A If built of heavy riveted construction.

Q That the 3-20's if built with heavy riveted construction would cost $1.25 a barrel?

A Yes.

Q According to Exhibit "240"?

A Yes.

Q Then are you putting the lighter steel into these 10,000 barrel tanks we are speaking of today?

A Yes.

Q Why?

A Because they are a smaller tank and probably will not be there as long as your large tanks; I am assuming that they would not, it would not be necessary to dismantle them probably and rebuild them.

Q One more question, is it possible to meter crude oil as we get it here in Turner Valley?

A I do not think so, sir, with any degree of accuracy.

Q Why not?

A Because you would give a small measurement; in other words I do not think you would deliver a full barrel.

Q There is something in the oil which prevents accuracy of measurement?

A Yes, I have quotations from two of the large meter companies in the United States, the Dashler and the Brody; their agents were quite willing to take an order but in placing it before their engineers in the factory they both turned the order down, that is on a four-inch, 1,000 pound working meter.

Q And how much does a four-inch, 1,000 pound working meter cost?

A On the meter he quoted me, F. O. B. Los Angeles, $1900; $2700 Vancouver and to go with that there are the distrainers, air chambers and automatic devices, which runs it up to a little over $3300 F. O. B. Calgary.

Q Laid down here at Calgary?

A Yes, that is without installation.

Q MAJOR LIPSETT: Did they give that for the reason of turning it down, Mr. Coultis, that it would not be accurate?

A May I read a paragraph from his own letter?

A Yes?

"Dear Mr. Coultis: I have just received an air mail letter from our head office regretting that they would not recommend our high pressure meter under the sulphur and paraffin conditions that I sent down to them and which you kindly provided me with".

Q I thought you might like to have that on the record?

A Yes, thank you. They both turned it down.

Q MR. FRAWLEY: Now we are waiting to see what evidence Mr. Moore can give us and Mr. Plotkins tells me there is a witness coming along the same line.

MR. PLOTKINS: I am in a position to give accurate quotations on tankage but I do not quarrel with Mr. Coultis' figures this afternoon, as to the quotations on the tanks,

MR. FRAWLEY: Are they similar to the evidence of Mr. Coultis?

MR. PLOTKINS: If you take into consideration the fire walls and equipment and valves and everything else, and labour, 2-10,000 barrel tanks, the price is about right.

THE CHAIRMAN: So we need not worry about that.

MR. FRAWLEY: No, so we only have Mr. Moore who is endeavouring to obtain some data and coming up to amplify his Exhibit "244" for us and to also give us some information with respect to the cost of operating the storage.

THE CHAIRMAN: That will then finish the pipeline?

MR. FRAWLEY: That will then finish the pipeline evidence.

THE CHAIRMAN: The Commission is of the opinion that they would like the benefit of any submissions that counsel may wish to make about this before entering upon

our report. When would it be convenient to put forward those submissions, gentlemen?

MR. NOLAN: I understand we are expecting to hear from Mr. Moore at any moment and if we cannot get him today he will have to go on tomorrow morning.

MR. FRAWLEY: It would seem to be either at half past ten tomorrow morning or this afternoon. Assuming we finish today, now I am merely thinking about the Commission, if we begin in the morning we would take all of the morning and perhaps I do not think, no, perhaps it would only be the morning, let us say no more than the morning and then that might give the Commission part of the day at least that they might have for themselves, if the Commission intends to adjourn to consider its further report.

THE CHAIRMAN: We stressed the benefit to us of argument by counsel. We find it of great advantage to hear counsel as they themselves consider what they have to submit and we are in your hands. We feel that we would rather go on in the morning if you do not feel that you will need further time to consider your submissions and weighing what you have to say before saying it. If so we would rather go on in the morning. If on the other hand you say to us that you feel you want more time to consider "Ere we speak" we will hear you at 2 o'clock. Now we are entirely in your hands.

MR. FRAWLEY: I was just going to say, Mr. Chairman, that the other alternative would be to begin at 2 o'clock and then that would destroy the day so far as it being of any use to the Commission for its own deliberations.

THE CHAIRMAN: You can discuss it amongst yourselves and before we finish with Mr. Moore you can let us know what you desire. We will adjourn now until Mr. Moore comes.

(A short adjournment was here taken).

(Go to number 6879)

MR. HARVIE: Mr. Chairman, you have asked for a statement of policy of the British American Oil Company in regard to the sale of any surplus crude that it might have, not required for its own requirements. I have had the advantage of reading the statement made by Mr. Nolan, and I am authorized to say that that policy suggested by the Imperial would be agreeable to the B.A., in all details with the one exception, and that exception is necessary, I think, Mr. Chairman, in view of the possibility suggested in a remark of your own which I may read from the transcript. "And your statement varies also, does it not, Mr. Nolan, in that you will, I think, very properly change it to say that you will deliver not just at the present handling charge, but at the charge that may be fixed in respect of handling, whether in the whole rate or not, by a body competent to fix it."

My comment is, that as we will be paying the whole rate, whatever it is, to the pipe line company, if we are required to sell we will need an additional loading charge. Otherwise we would be put at a decided disadvantage. I think that is just another reason why there should be a separate loading rate so that we will be all on a similar basis. Have I made myself clear on that point?

THE CHAIRMAN: Yes.

MR. HARVIE: The situation is this, if there was one rate, we will say, established to load into tank cars, which would be the same rate as delivering into refinery tanks, to the Royalite, we would have already paid on any oil we have in storage for our refineries to the Royalite a loading charge, inclusive in the one rate. If we are required to take that out of storage and sell to a third party, we would

have an additional loading charge which we should be recompensed for.

THE CHAIRMAN: We understand your statement, Mr. Harvie.

MR. COMMISSIONER LIPSETT:: Mr. Harvie, you make one exception from the statement that Mr. Nolan made, and I am just wondering whether there is any real exception in it, and I was going to put it to you in alternate ways. In the first instance, on the assumption that there is a transportation rate plus a loading charge, in that event the Imperial would get the loading charge that is fixed and you would get the loading charge in exactly the same way?

MR. HARVIE: Yes.

MR. COMMISSIONER LIPSETT: That would be satisfactory?

MR. HARVIE: Yes.

MR. COMMISSIONER LIPSETT: And the other alternative, if the loading charge were included in the general rate then that would be done by the pipe line utility for you or for the Imperial would it not? I mean to say the Imperial would give an order to the pipe line company to load a tank car.

MR. HARVIE: Of course I do not know....,

MR. COMMISSIONER LIPSETT:. Just a minute. You in the same way would give an order to load a tank car. It would cost you nothing. But possibly you have another difficulty in mind that you could not do that. You would have to get the crude oil to your refinery first?

MR. HARVIE: Exactly.

MR. COMMISSIONER LIPSETT: Is that accurate, or could you not say to the pipe line utility to load a tank car for you

for Saskatchewan or elsewhere?

MR.HARVIE: I think the mechanics would be that we would be loading from our own storage in our own refinery. It may be only in that way we will know what surplus we have at all. There may be a situation arise where we got an order for a shipment to Saskatchewan to an independent refinery, and if there was an all-inclusive rate that we would adopt the suggestion you made that we would load through the facilities supplied by the pipe line company. It would complicate matters considerably as we contemplate all our purchases would be delivered to us at our refinery site.

MR. COMMISSIONER LIPSETT: In any event,

MR.HARVIE: In any event, and I suppose the same situation will arise with the Imperial.

THE CHAIRMAN: If a separate terminal handling rate is recommended then your statement is that of Mr.Nolan's?

MR.HARVIE: Yes.

MR. COMMISSIONER LIPSETT: Is there any real difference between the position of the two companies?

MR.HARVIE: I cannot say until I know what the Board's order is going to be. If they adopt something along the suggestion of the Imperial, that the Imperial be paid a 2 cent rate for loading, it would be one situation. If the Royalite Oil Company owned all the facilities to load right into tank cars or trucks, there would be another situation. But I think our position is maybe quite clear as long as we are not put at a disadvantage. If we get treated the same as any other person we would be agreeable.

MR. COMMISSIONER LIPSETT: The two alternatives I was contemplating at the moment,and the only two, were one,

that there would be a separate loading charge added on to the rate which would apply to the Imperial, to you and to any other refinery that got delivery, and the second alternative is that in all cases where you wanted delivery into tank cars, that that would be a part of the inclusive rate and in that event you would still have to bring the oil to your refinery or you would just give an order to the transportation company to load the car for you and ship so much to your refinery and put so much in tank cars.

MR. HARVIE: I would have to know what the orders of the Board were. It could be worked out, I think. I think our whole position is premised on the fact it will be oil from our own refinery we have in contemplation to sell, and not some oil that some other person else has nominated for in the field.

MR. COMMISSIONER LIPSETT: I can quite see you do not want to be put in the position 2 cents or some other amount worse than the Imperial. Is that the only thing you have in mind?

MR.HARVIE: Yes, so long as it is a competitive position and if we are required to sell we would get the same as any other refinery selling oil.

MR.NOLAN: There is one thing not very clear to me and that is where, under arrangements, there is something in addition to the rate for these loading charges and these other refineries would also be loading tank cars and tank trucks for their independent purchasers.

MR. FRAWLEY: Yes. You contemplate that there will very likely be that kind of business.

MR. NOLAN: For them too?

MR. FRAWLEY: Yes. In other words they will be jobbing and shipping oil in tank cars.

MR. NOLAN: I was wondering at what rate they will be doing that, at the rate fixed for that service by this Commission?

MR. FRAWLEY: I presume the rate having been fixed, that would fix it would it not? I would think that would fix the maximum.

THE CHAIRMAN: They would not get as much business if they went higher. If they went lower it would be always your privilege to meet them.

MR. NOLAN: And, of course, they would be public utilities.

MR. FRAWLEY: I am not certain of that at the moment.

MR.NOLAN: I am. If the Imperial assets are.

MR. FRAWLEY: I am not seeking to keep them from being so, but I wonder if the Statute means that.

MR. NOLAN: That is a point that has to be thought about by the other refineries.

THE CHAIRMAN: I do not know that I understand the difficulty, Mr. Nolan.

MR. NOLAN: My friend, Mr.Frawley, is urging upon the Commission that under the language used in the present Pipe Line Regulation Act, anybody who has anything to do with the handling or storing or delivering of oil is a public utility.

THE CHAIRMAN: Well I do not know what Mr. Frawley's submission may be.

MR. FRAWLEY: To help Mr. Nolan make the

point at the moment, if it is helpful to him, I am certainly submitting that the Imperial Oil loading racks now are as much a public utility under Chapter 4 of 1939, as is the Royalite trunk pipe line.

MR. NOLAN: And I simply ask then what about the loading racks of everybody else who is performing the same service?

MR. FRAWLEY: It may very well be that they are public utilities but I had not thought of it.

MR. NOLAN: Possibly it is not my business, but I mention it to the Commission because it is a matter we will have to think about.

MR. FRAWLEY: There is something to think about, because the definition of pipe line is a very wide one. It may be when Mr. Harvie gets his service line - he has it now - into his refinery and then goes into the business of loading, puts in loading racks and loads for the Humboldt Refining Company in Saskatchewan say, then he then is as much a public utility as Mr. Nolan. It might very well be.

MR. HARVIE: With this distinction, we are really not in the sale of crude oil business. That is not our business. If, in order to meet a situation we are requested by the Commission to make a statement of our policy of selling oil to third parties, our policy is that we will sell it on those terms, any surplus.

MR. FRAWLEY: We are not talking about sale at the moment. If you would direct your mind to the service or the facilities, that is all.

MR. HARGIE: That is if we sell we have to give that service and have the facilities. I think the

section referred to by Mr.Frawley is to one continuous pipe line system that sells oil to any independent purchaser in the field, and he can take delivery.

MR. FRAWLEY: And any parts thereof, it says.

MR. NOLAN: That is, perhaps, for to-morrow?

THE CHAIRMAN: So far as that goes, yes, it might be dealt with to-morrow. It is a question as to whether or not sitting in our present capacities we are concerned to interpret that Statute. Perhaps we are. But I would say that is for to-morrow. It is quite clear your companies have not been designated by name in the Act, Mr. Nolan?

MR.NOLAN: No, but it does say that those performing special services as defined by the Act shall by reason of the Act become a public utility. Nothing remains to be done after it comes under that definition.

THE CHAIRMAN: I would think there is no doubt that it would cover your clients. Whether it covers anybody else's or not I have not considered. If it has a bearing we will be very glad to hear about it.

MR. FRAWLEY: Well, Mr. Moore is here.

(Go to Page 6886).

C. M. Moore.

CLARENCE M. MOORE, having been recalled, examined by Mr. Frawley, said:

Q Mr. Moore, you are still under oath?

A Yes.

Q We have had evidence as to what storage should be provided at the end of this pipeline to provide facilities for making deliveries into tank cars and tank trucks and we have had pretty well an agreement among the witnesses that it should require about 20,200 barrels, that is to provide service to the tank cars, 2-10,000 barrel tanks, and to provide services for the tank trucks, one additional small working storage tank of about 200 barrels, and we have that evidence then, this evidence by Mr. Coultis, that he would say that the all-inclusive cost to erect that storage would be about $1.00 a barrel; now, we have to go on from that and we would like to get from you, if you would, please, some evidence as to the probable cost of operating the storage, first the storage alone, the probable cost of operating the storage, and then I want to ask you something about these two Exhibits of yours, Exhibits "244" and "245"?

A I would estimate, and this is purely an estimate because I have had no time to get the figures together, that say 20,000 barrel storage would cost you approximately $3500.00 a year for utility.

Q $3500.00 a year for the service utilities necessary to maintain and operate those tanks?

A Yes.

Q Now, then, something else, for maintenance to the tank property?

C. M. Moore.

A I would think that outside of, you might have a small maintenance charge on top of that for painting and rehabilitation.

Q How much more, about, would you say?

A Oh, less than $1,000.00, on two 10's, is that it?

A Two 10's and a small 200?

A Yes.

Q Would $500.00 more do it?

A About $800.00.

Q Now, anything else to be allocated solely to the question of operating and maintaining the storage, that would look after that, would it?

A That would look after everything, but, that is in in Mr. Coultis', I might add if, in Mr. Coultis' estimate, there was anything for the pumping.

Q For the pumping?

A The pumping facilities.

Q Now, we go now to the loading operations, but this is exclusive now of operations?

A All right.

Q Then we go at once to the cost of operating this much storage, having in mind now, this much storage, and no more, and operating, we will have to give you some operating figures though-----

THE CHAIRMAN: What is the $3500.00 for?

A You might have some scheme for heating, repairs to your heater coils, etc., those figures are purely an estimate, but they are based on some past experience.

Q Repairs to your heater coils would come under your maintenance, would it not?

A The maintenance I was speaking of was paint jobs, you can call part of that $3500.00 your maintenance

charges, Sir.

Q $4300.00 is everything then?

A Yes.

Q THE CHAIRMAN: It would take $4300.00 a year to maintain a $30,000.00 plant?

A I don't know whether you have ever had a bare tank standing out at 40 below with steam coils blowing on it and see how much steam it will consume in a day.

THE CHAIRMAN: Is that not an operating cost?

MR. FRAWLEY: Yes, it is part of the general operating cost, but if we have it here we have not got it anywhere else.

THE CHAIRMAN: I understood you were just going to that.

MR. FRAWLEY: Going to some more, there will be no more expenses?

A Except the pumping.

MR. NOLAN: There will not be any more operating costs except in respect of facilities?

A No.

MAJOR LIPSETT: Does that include the steam, everything except the pump?

THE CHAIRMAN: Everything but pumping?

A Yes.

Q MR. FRAWLEY: Now, let us be clear----

A Just a minute, Mr. Frawley, let me make a correction, and this is still estimates, but I have got two figures confused here, Sir. I would like to correct that utility figure, and will you take this, Mr. Cottle, to approximately

C. M. Moore.

$1500.00 instead of $3500.00. I have got two different sized storage mixed up in my mind here.

Q All right?

A Then the rest of it can stand.

Q How about the maintenance?

A We will let that stand.

Q Now, let me understand that , we have not got into the loading racks?

A No.

Q Or trackage?

A No.

Q Or pumps and lines?

A No.

Q We just have the operation of the storage standing alone?

A That is right.

Q Now, then, I want to go back, we will go back to Exhibit "244"?

A Will you let me have Exhibit "244", Mr. Frawley?

(Exhibit handed to the witness.)

A Thank you.

Q Now, I understand that either you, Mr. Moore, or Mr. Nolan, will make a statement as to these three items of"loading racks, $8600.00, trackage, $3,224.68; pumps and lines, $31,000.00".

MR. NOLAN: I have enquired, Sir, because the other day there seemed to be some uncertainty as to how the investment was arrived at in both of these Exhibits, Exhibit "244" and Exhibit "245", and

T-
C-5
5 C. M. Moore.

my instructions are that the value of the investment in Exhibits "244" and "245" is on the replacement basis, but using secondhand materials where available, that was what I was told in answer to that question.

Q MR. FRAWLEY: Mr. Moore, you will observe that the depreciation, assuming now, accepting now what Mr. Nolan says as to the manner in which Exhibit "244", the $8600.00 has been arrived at, you will observe that the depreciation charge of $3,986,85 is there for just the observed depreciation, I take it, the wear and tear?

A I would say it was set on the rates that are calculated at the side of the column there, Sir.

Q It is the annual depreciation, that $3,986.85?

A I would say so, that would be my reading of that figure.

Q Based on the rate of 7½%, 7½% and 10%?

A Yes.

Q Right?

A Yes.

Q Now, it is suggested I should ask you whether or not these depreciation rates should be based upon any different basis or are they on any different basis than the pipeline system itself?

A I cannot answer that, Sir, I did not see the rates, and I am not familiar with the rates that are set on the pipeline itself.

Q Now, Mr. Moore, the direct costs on Exhibit "244", totalling $37,846.41, I will ask you, we asked you about those the other day and I think in the end you told us that those were costs which had been prepared in part

here by you and sent to Toronto, but that the complete list is really a Toronto figure, is that correct?

A Yes.

Q And it is based upon a loading of 8,000 barrels per day?

A Correct.

Q Or how many cars, about 40 cars a day?

A Well, 36 to 40.

Q 36 to 40 cars?

A Depending on the size of the cars you use.

Q And that is what you list for your own account at Regina, the British American account at Moose Jaw-----

A Those are our loadings for crude for the year 1938, I don't care who they were loaded for, and it just happens to approximate 8,000 barrels a day for 365 days.

Q Then you have, the same Exhibit shows the costs of, a less cost when you are working on a basis of loading 5,000 barrels a day?

A The direct cost was figured approximately in comparison with the 8,000.

Q That $23,654.01 is simply a figure which bears a relation to-----

A 5/8 of the $37,846.41.

Q Correct.

A The fixed charges being the same in both cases.

Q You simply gave us 5,000 as another figure for the Commission?

A No, I just simply showed you it didn't cost much more under some set-ups to load, it costs no more per barrel for 5,000 under some set-ups than it might for 8,000, Mr. Frawley; that would be a figure which would not hold under some set-ups which could be made, which would

be practically legitimate.

Q All right, Mr . Moore, I am going to put a hypothetical question to you, supposing you were operating in connection with this, well, in connection with the loading racks, 50,000 barrels of storage, 50 or 60 thousand barrels of storage, can you tell me what the utility expense per annum and operating expense per annum of that would be?

A I am sorry, Sir, but I have not got that figure; the one I handed you for the 20,000 was purely an estimate.

Q Yes, all right. Now, Mr. Moore, if I give you the figure which is actual, what we have to concern ourselves with here on the evidence, namely, the movement of about 1400 barrels a day, which you said to us this morning was, through Mr. Coultis, was a peak day, a heavy day in 1938 for independents, that is correct, is it?

A No, 5429 barrels is the peak day.

Q 5429 barrels?

A Yes.

Q Is that for everybody?

A The peak day for independents was the question which was asked me over the telephone, Mr. Frawley.

Q THE CHAIRMAN: We had 1400?

A I think you have got the peak week.

MR. NOLAN: I gave you the peak week and now Mr. Moore is giving us the peak day.

Q MR. FRAWLEY: You gave us the other day, Mr. Moore, 7 cars a day as being, as I thought, the heavy day of movement to independents?

A No, the average day.

Q The average day?

A Yes.

C. M. Moore.

Q Can you tell me, using Exhibit "244", can you give me any comparable figure for what it would cost to load it, what you loaded out last year to independents, we will take this year as being the same as last, you cannot give me that?

A I am sorry, I cannot give you that.

Q You would load out, you said, 14,418 barrels in the peak week for independents, is that what I understood?

A Yes.

Q Correct, and that is about 60 cars, using 240, again using 240?

A Yes, that is about 68 cars.

Q Well, now, are you able to give us, and you tell me you are not able to give me any operating costs on the same set-up as Exhibit "240", and what it would cost to load it, at that rate?

A No, because, as you see, from the peak day and the peak week and some of the minimum weeks, it would be rather difficult to determine what you are going to use in the way of labour, for instance, Mr. Frawley; I might call your attention to 5429 barrels in one day, we didn't do very much for ourselves, for instance, when we had that much to go.

Q About 23 cars?

A That would be one complete set on a 24 car rack.

THE CHAIRMAN: Any more questions?

Q MR. NOLAN: I was going to ask Mr. Moore, without going too far into this thing, the cost of operating the storage, you show $1500.00 for service utilities, $800.00 for painting and repairs, is there anything included there for the gauger in the

operation of this storage, or is a gauger required to operate the storage?

A Oh, yes, a gauger would be required, and he would be, in our estimate for loading.

Q He would be in?

A On this "244" Exhibit, Sir.

Q Now, one more figure we have before us to-day, Mr. Gemmell of the Anglo-Canadian Company, he said that his expectation was that in May, 1939, they would ship through our facilities for tank car loadings 25 to 30 thousand barrels in the month of May, of this coming year?

A This year.

Q This year. Now, does that give you any reason to believe that your peak week will be greater than in 1938?

A It could be, well, Sir, because they had no business of that calibre last year.

Q Do we know from the evidence which is already in what was the calibre of their business last year, is it on Exhibit "242", this Exhibit "242", does that show what their business was last year?

A Yes, it does, last year, their business last year was 10,257 barrels for the month of May, a total for the year of 74,111 barrels.

Q What was the number of that Exhibit?

A "242".

Q The point is simply this, and we are all interested in it, are we going to have enough storage in two tanks to take care of our requirements for loading independents by tank cars in 1939; now, Mr. Gemmell was here a few minutes ago, and you follow me, do you, and said that

in May, 1939, their expectation was that they would load into tank cars through our facilities 25 to 30 thousand barrels?

A Or two and a half to three times as much as a year ago.

Q What does that do to the peak week?

A Well, it might increase the figures very considerably.

Q Well, then, does that have any effect on the storage required?

A I would say so, it would.

Q Because this storage of two 20's is arrived at by taking your peak week of 14,418 barrels and adding 20% to it, and 700 barrels, they take 14,418 barrels as the peak week, they add 20%, they get a total of 17,240, and they add 700 barrels for truck loading to that, and then a bit over for good measure, and bring it up to 20,000, you see?

A Yes.

Q Well, have you anything to say as to whether or not that is going to be enough in 1939, having regard to what Mr. Gemmell said?

A Well, the only thing I can say is that if every other customer would increase their estimates as much as Mr. Gemmell has over their takings at the same time last year, that this storage would not be adequate.

Q Did you tell us what you thought the storage should be, the other day, my memory is, I think you said 60,000?

A I suggested at least three tanks of terminal storage of 25,000 each.

Q Have you any reason to change your views?

A Not a bit.

Q MR. FRAWLEY: To cover how big a movement, Mr. Moore?

A Terminal storage, let that pipeline operate evenly and efficiently, Mr. Frawley.

Q But without getting into that particular controversy, and giving some leeway for what Mr. Gemmell is going to do this year as against what he did last year, or was that present in your mind?

A It was also present in my mind, not only the loading of tank cars but also for even the pipeline operation, so that there would be no necessity of shutting down.

Q MR. NOLAN: My note of it, Mr. Chairman, is that the witness said 60,000 barrels if only for loading tank cars and tank trucks, and he suggested an additional 60,000 to look after emergencies for the refineries, are those the figures you gave the other day?

A Yes, I still think that the pipeline has to have a safety-valve.

Q How much safety should they have?

A I said 120,000 last week, Mr. Nolan.

Q But so far as tank trucks and tank cars are concerned, you said 60,000 last week?

A Yes, and I do not see how a pipeline can take care of this business and terminal storage without having at least three tanks, just for the sake of being able to change from one to the other, Mr. Frawley, without shutting off the service.

(Page 6897 follows.)

Q MR. FRAWLEY: Now as to that there is a controversy of evidence and we will have to do the best we can with it. Mr. Naylor and Mr. Hull seem to have different opinions about it. Be that as it may, and limiting yourself to what is required to make delivery into tank trucks and tank cars, how much storage do you think more than the figure I have suggested to you of 20,200, that indeed we got from Mr. Naylor, how much more than that do you think there should be in your opinion?

A Well you should have at least three tanks.

Q That is as to the number of tanks. But the barrellage?

THE CHAIRMAN: Mr. Naylor had three.

Q MR. FRAWLEY: Yes, two tens and a small 250 barrel tank?

A Well I am going to dispute my friend at that point, then, because that third tank is for one service only.

Q Yes, tank trucks?

A It would be absolutely useless to the pipeline as a safety valve or for tank car loading. Therefore, I would suggest there would be three tanks at least in the service for tank cars, and the small tank, one will do very nicely for loading tank trucks. In fact we had no more consideration than for one in our figure, Mr. Frawley.

Q Three of what barrellage?

A I would say for an estimate that we should expect to improve, at least I think everyone else here hopes it will improve, and I would say there should be at least three 20-s for the tank car loading, and for the tank truck and storage in the small loading tank.

Q Let us see precisely where that takes us. You would want three tanks totalling 60,000 barrels to load out a peak of 14,418

barrels per week.

A You take last year's peak, Mr. Frawley. But we have one customer that has just got through admitting that they expect to do two and a half times more business.

Q Let me please correct you. You are only talking about your business with independents?

A Absolutely.

Q All right.

A But we have, according to the statement.....

Q Mr. Cottle wants it clear please, Mr. Moore, Regina is not in the calculations at all, your own company at Regina?

A You said independents. I have been living with that word a long time.

Q All right.

A Now if we have other customers that increase to the extent that Anglo-Canadian estimate they will, then what figure would you think that might run above 14,400. You have that about 40,000.

Q You say the 14,000 will become 40,000?

A Yes.

Q Where is all this crude oil going to go?

A Darned if I know. That is the first I heard about this 25,000 to 30,000 of the Anglo-Canadian.

Q Well just look at the market. You know what the market for Western Canada is, if there is anybody knows it? You should know it. What is our all the year average for Western Canada?

A I have been wondering since noon where Steveville is going to go to.

Q 30,000 a month you are referring to the Anglo-Canadian figure of 30,000?

A Yes, from 10,700. That will be approximately three times your 14,400.

Q Where is that oil going to go, I ask you again?

A I haven't figured that out.

MR. NOLAN: Perhaps it will go to the Admiralty.

MR. FRAWLEY: It certainly is something beyond Western Canada when we get into that sized storage?

A The only thing is you asked me a question, Mr. Frawley, and I have endeavoured to answer it and I am taking only the best evidence that I know there is, that there is going to be a great deal of increase this year over last year.

Q You now say it should be 60,000 barrels to look after the business for 1939. As against that we have the definite fact that the 1938 peak was 14,418 barrels a week?

A Yes. We also know that at least two customers have increased their shipments this year over last year quite considerably, Mr. Frawley. One of them being the Consumers' Co-Op., at Regina and the other being the statement of Mr. Gemmell as to what the Anglo-Canadian is going to take.

Q I want to be just as optimistic as anybody. I for one am not going to cry down Turner Valley. Let us have all the production out of Turner Valley we can. But let us be reasonable in submitting these figures to the Commission as to what this storage should be. You say there should be 30,000. We have the fact that the most business you can point to for independents last year was 14,418 barrels in a week.

THE CHAIRMAN: Any questions?

MR. NOLAN: No, thank you.

THE CHAIRMAN: Mr. Plotkins?

MR. PLOTKINS: No sir.

.....

KENNETH J. MORRISON, recalled:-

Q BY MR. FRAWLEY: When you were presenting the Sunset Oil Company's case you said you would prepare a statement, you would extend the statement on up to date?

A Up to the 31st of March, 1939, which I have done.

Q You now produce a statement built up in the same fashion as the exhibit you have already filed?

A Exhibit "211".

Q Does it go back to the beginning?

A Yes, it goes back to the beginning.

Q So it really can replace the other exhibit?

A It supersedes this exhibit by bringing it up to the 31st of March instead of the 31st of October.

THE CHAIRMAN: Mark this as Exhibit "211A".

STATEMENT IN QUESTION IS NOW MARKED EXHIBIT "211A".

THE CHAIRMAN: Have you come to any conclusions as to when you wish to address us?

MR. FRAWLEY: Mr. Chairman, I think we are all agreed we will begin at 2 o'clock.

MR.NOLAN: We are all agreed that the arguments will not be lengthy, too. They will finish comfortably in the afternoon.

THE CHAIRMAN: Do you concur in that, Mr Plotkins?

MR. PLOTKINS: Yes.

(At this stage the Hearing was adjourned until 2 P.M., May 10th, 1939).

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e Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 16th, 1939

VOLUME 57

ARGUMENT

THE CHAIRMAN: All right gentlemen.

MR. FRAWLEY: Mr. Chairman, I assume that the Commission will only want to hear me once and in that case either my learned friend Mr. Nolan or Mr. Plotkins might begin.

THE CHAIRMAN: All right. We have left it up to the present time for you gentlemen to decide in what order you will proceed. Do you wish to go on, Mr. Nolan, or Mr. Plotkins?

MR. NOLAN: I am willing to go on if that is agreeable.

MR. PLOTKINS: It is agreeable to me.

MR. NOLAN: Before opening the argument, sir, there was a point which has occurred to me and which I have discussed with the Imperial Oil officials in Toronto and it is a point upon which no direct evidence has been led during the latter days of this inquiry. It is in respect of the propriety of renting from the Imperial that storage which might be required by the pipeline company for loading either tank trucks or tank cars. The situation is this, we have down there now, as the Commission knows, 2-80's and 1-40, which are at presently in use, as adjacent to the operation of this pipeline company and leased or rented from the Imperial Oil Company. We have had a lot of evidence as to what it would cost to create new tankage facilities for the Royalite Oil Company but very little about the propriety of renting from the Imperial some storage for this particular purpose, the storage which I have mentioned. We have available down there for the use of the Royalite Oil Company not any 20,000 barrel tanks but

we have 2-40,000 barrel tanks, which would be available and we would be prepared to rent those to the Royalite Oil Company at an annual rental of $14,000 a year. That of course would include such things as light, heat and maintenance and the ground rental and all those things which are now being contributed to the rent which is being charged at $35,000 a year and it occurred to us that if this suggestion were made it was something that the Commission would want to consider rather than put the Royalite in the position of having to duplicate what is presently in existence and available on the ground. I do not know whether the British American Oil Company has any 20,000 barrel tanks; unfortunately we have not and the figure we have been using in the evidence is 20,000 barrel tanks but as I say there are 2-40's down there and we would be prepared to rent them under an arrangement of that kind.

Now, sir, in respect of the evidence which has been adduced throughout the last few days, I take it that I am expected to direct my attention to that evidence and to the points which emerge from it. Those points for the most part are to be found in the memorandum which has been presented to us by the Commission; not that we are in any sense to adhere too closely to it nor did the evidence adhere too closely to it but if I can be of any assistance to this Commission at all today it seemed to me that my duty was, and I have attempted to look at the evidence which has been given on pipeline facilities, to bring to your attention what in my humble opinion are the highlights of that evidence so that the Commissioners may be in a position to weigh what has been said both by the officials of the company and by the experts who have been called.

Now dealing first with the question of terminal storage itself; Mr. Coultis came before the Commission and he gave us his estimate of what would be required for terminal storage. He did that on two bases and they are to be found in Exhibit "240". I shall from time to time, sir, refer to pages because if you ever find it either necessary or useful to refer to the argument perhaps the page number of the book would help too. However, this Exhibit "240" is an exhibit which Mr. Coultis presented and as I say he said that on an 8,000 or a 1,000 barrel per day operation there would be certain storage required; on the 8,000 barrels per day loading into tank cars, and that is all I am talking about at the moment, he said it would require 3-40's or 120,000 barrels of storage for operating at these terminal storage facilities for loading only into tank cars and tank trucks, and as he put it, some storage to take care of an emergency or working storage; there is a discussion with Mr. Coultis on those points in Volume 53 of the evidence at pages 6462 to 6464. He assumes of course,- and quite properly so,- that the refiner would do his own shipping and that under the arrangement which will be brought into existence whereby the refineries are served directly, there is more storage now in use than will then be required. He made that answer to a question put to him by the Chairman of this Commission. We have now 2-80's and 1-40, he said that is more than we need if each refiner took his oil to his own refinery.

Then on the 1,000 barrel per day loading tank cars and tank trucks he eestimated that there would be required 3-20's, or a total of 60,000 barrels.

Mr. Moore, who gave evidence in volume 54, beginning at the point I am mentioning, at page 6565, made some reference to what he calls "the peak and low periods" of an operation of this kind and he says at page 6565,

"Looking at the pipeline in the position that it is in with its peaks and low periods, that that pipeline would have no chance of being efficient and properly doing its work if the storage was cut below 120,000 barrels at least; now to make that quite clear as to why I based that statement, anything can cut off a certain amount of these shipments, through floods or wrecks or fires, the possibility of something happening in Calgary at the plant that are using it also have some risk attached and when you recall that last summer your peaks went up to around 29,000 barrels, then sir, that pipeline would not have very many days to work on if the storage was curtailed shortly and lost barrelage cannot be recovered maybe in the month that it should be recovered in".

Mr. Moore then goes on to say that his estimates, which are to be found at pages 6574 and 6575, do not of course include any Imperial shipments to its refinery at Regina. He gives it as his estimate that there would be reqired 60,000 barrels of storage for loading tank cars and tank trucks and that there should be an additional 60,000 for emergency. His opinion was that there should be three tanks, one charging and two discharging. Now when we are discussing the question of peaks and lows and the uncertainty of what the future may hold for this pipeline throughput, it is interesting to refer

the evidence of Mr. Gemmell of the Anglo-Canadian Company at page 6861 in Volume 56 where Mr. Gemmell's attention was directed by the learned Counsel for the Commission to what would be the estimate he would put upon their probable requirements in the month of May, 1939 and in answer to that question mr. Gemmell said that there would be required in his opinion, his estimate of the amount of crude which might be moved through these facilities to the refinery at Brandon of the Anglo-Canadian in the month of May, 1939 would be 25,000 to 30,000 barrels. We know from the evidence which has been put in through Mr. Moore that the amount of crude moved by this company to its Brandon refinery in May 1938 was 10,257 barrels and, as Mr. Moore said in his evidence, it would indicate that there would be an increase in the amount moved by the Anglo-Canadian in May of this year by 2½ to 3 times, if his estimate of 25,000 to 30,000 is a reliable one.

So far as the cost of constructing tankage of this kind, the evidence of Mr. Coultis is to the effect that it costs about $1.00 per barrel if the tanks are set up in a such a manner that they can be immediately operated. The expression he used was "as a going-concern it would cost about $1.00 per barrel". His evidence on that point is at page 6871 and Mr. Moore at 6888 said that the cost of operating the storage he would estimate at $15,000 for the service utilities and an additional $800 for painting and repairs. Some discussion took place as to the amount of dependable or usable storage in these tanks. Mr. Moore said that you take 5 feet off the 40 feet of the tank itself because of some storage both at the top and at the bottom which cannot be used. Mr. Hull, who came for

the British American Company, at page 6731 said that there was about 80% of the tanks which could be described as "dependable capacity" or "usable capacity" and Mr. Naylor at page 6797 agreed with the figure of 80% usable capacity referred to by Mr. Hull. Now that is only one side of the picture. The other side is the evidence of Mr. Hull of the British American Company and the evidence of Mr. Naylor who came here from the Transit and Storage Company of Port Huron. Neither of these two gentlemen saw any necessity for any terminal storage so far as this pipeline was concerned, apart altogether from loading tank trucks and tank cars. Well with great respect to the ability of both of them, with great respect to the wide experience of Mr. Hull and to the experience of Mr. Naylor in matters of this kind, I think it should be borne in mind by the Commission and I respectfully submit that neither of these two gentlemen have in fact operated a pipeline in this country. They are not familiar with the conditions which confront this isolated line operated under the severe weather conditions in the Province of Alberta and it may well be that the Commission would rather take the opinion of Mr. Coultis and Mr. Moore as to whether or not terminal storage is required beyond that used for tank cars. After all, Mr. Coultis' opinion should be worth something to the Commission. He is a man who has appeared here many times as a witness. He has given his evidence in a manner which, in my submission, should commend itself to the Commission. He has not been extravagant in his ideas. He has been, I submit, a reasonable man in the expression of his views and perhaps after all the people who have operated this pipeline, who know what the peaks and the low points are, who know what the weather con-

ditions are, give evidence which is perhaps more to be considered than the evidence of gentlemen who come from afar and who give their expert opinion about matters about which they have had no practical experience but I am confronted with the position of having Mr. Hull and Mr. Naylor on the one hand saying that they do not see that the pipeline company requires terminal storage and on the other hand Mr. Coultis and Mr. Moore whose evidence is to the effect that it does. If the Commission wants to look at the evidence of Mr. Hull on that point, it is in Volume 55 at page 6702; the evidence of Mr. Naylor on the same point is in Volume 56 at page 6792.

Now turning my attention to the question of loading tank cars, Mr. Hull at page 6705 gave as his opinion that there would be required at least 2 tanks of a combined capacity of approximately one week's maximum shipment by tank car or tank truck.

The evidence on that point is agreed to by the witness Mr. Naylor in Volume 56 at page 6793 and Mr. Moore gave us the figure of what would be the maximum week's shipment and the figure is 14,418 barrels. Then a discussion arose with Mr. Hull in respect of the propriety of the pipeline companies owning what we call here "terminal facilities". That discussion is at Volume 55 at pages 6708. Mr. Hull told the Commission that there were very few pipelines in the United States of America who owned or controlled any terminal facilities for loading tank cars or tank trucks. He said in effect that it was more economical to arrange with someone else owning such terminal loading facilities to do that work and the evidence of both Mr. Hull and Mr. Naylor at page 6796 is that the customary rate in the United States for performing a service of that kind was 2½ cents per barrel.

There is evidence also that there is a loss in loading tank cars. Mr. Moore at page 6552 of Volume 54 says that, based on his experience in the past, mathematically computed there was a volumetric loss amounting to .4848 or slightly less than 1/2 of 1% and I take it from what I remember of the evidence that there is no disagreement between any of the witnesses as to the fact that there is a loss in loading tank cars and that there is necessarily a greater loss in loading trucks because every additional operation it would seem from the evidence we have heard, brings about an additional loss of some kind.

Now turning to the question of tank truck loading, Mr. Hull gave us a great deal of information on that point. His evidence in the first instance is to be found in Volume 55 at 6710. Mr. Hull says that there is very little truck loading in the United States except where a producer loads trucks from the lease tanks. By that he means the tank that is on the oil lease itself. He said that at page 6733 and again at 6749 that it was a more expensive operation than loading tank cars. He said that at 2½ cents there is no money in it and that the losses are greater because of the nature of the physical operation itself. He said at 6749 that he would not care to guess how much more it might cost. It is a matter how often the trucks come in. At 6752 he said it might be considerably more costly and that tank truck loading is an accommodation. It was not profitable to his company which he operated in the States but that they did it as a matter of convenience and that usually it was more economical to work out some arrangement between the pipeline and the refinery to do that work. Mr. Naylor at 6794 agrees that it is not customary for pipelines in the United States to load into tank

trucks and gave as his opinion at page 6797 that it would cost from 2 to 2½ cents more than tank car loading. That statement is to be qualified by what Mr. Naylor said at page 6852 because in answer to the Chairman at that point in the evidence he said that he was not suggesting that as a positive figure that you had to find out, as he put it, what additional equipment and what additional time was necessary.

Now so far as these two kinds of loading are concerned, tank car and tank truck, there seems to be no disagreement between the witnesses for the most part at least that both of these costs or charges should be out of the rate itself and not included in it but when we hear a witness like Mr. Hull saying that in his experience it is more economical and more practical to do this work by having an arrangement made with some refinery, I commend to your consideration again if I may the offer which has been made by the Royalite Oil Company to do this work under the terms which I outlined to the Commission.

THE CHAIRMAN: You mean the Imperial.

MR. NOLAN: The Imperial, I beg your pardon, at pages 6514 to 6526 where a discussion on that point took place, and it may well be that the Commission will come to the conclusion that rather than have difficulties arise as to who or who may not be a public utility within the definition contained in the Pipeline Regulation Act of the last session of this Province, that it may be a way out and a practical, economical solution of these difficulties to permit the Imperial Oil Company to make such an offer as they made to the Royalite Oil Company to do this work for the figures which have been mentioned in the offer which was

set forth and it is not to be forgotten, I submit, that it is possible for the Imperial Oil to make an offer of that character because of the peculiar circumstances under which they operate their refinery, in other words, we know that they have the facilities there now to do this work and when I say that I am not forgetting that there has to be some re-arrangement or adjustment for truck loading if that is to be carried out, but so far as the tank car loading is concerned the facilities are there now to do the job.

(Go to number 6911)

Not only have they got those facilities but their own movement of the oil is in the relation of 5 times, it is 5 times as great as the movement would be for the independents. It is because of that volume of movement, and it is because of the fact that the utilities are there now, that in our submission there is to be found in the offer of the Imperial an economical and practical way of handling the loading which is required at the terminal of this pipe line.

I said something yesterday about whether or not anyone who performs this service might become a public utility. I do not suppose that any of us will be invited by this Commission to argue as to what interpretation this Commission should place upon that Act, and that the Commission will, in all probability, say to us that the interpretation is for another forum, and that the duty of the Commission is simply to make such recommendation as it sees fit, and then it is for the Legislature to bring within the Act, and bring within the definition in the Act, such of those utilities, such of those assets, such of those facilities as in the opinion of the Commission should be included in the Legislation itself. But a point does arise, and I mention it to the Commission because if anyone is going to perform these services of loading tank cars and tank trucks, and if the definition contained in the Act is wide enough to embrace such an operation, it follows that anyone who loads tank cars and tank trucks is going to find itself within the operation of the Act. And that applies to the British American and that applies equally to Mr. Plotkins, unless, of course, there may be some recommendation brought down by

the Commission that in the event of making this tank car and tank truck loading something that had to be done either by the Royalite alone or in conjunction with the Imperial, that these other companies would be prohibited from performing this service. It will be interesting to find out as this argument proceeds whether or not the British American Company and Mr. Plotkins intend to perform such a service, or whether it is their intention that all tank car loading and all tank truck loading takes place down on the East Calgary Imperial Oil Refinery site. As a matter of fact the Imperial Company does not want to load tank trucks if they can avoid it. We have not got the facilities there to do it. We do not want to have to construct them. We made an offer to the Royalite as a matter of service, and it might very well be, and my information is that the British American Company has these facilities. If it has it may be able to do it for less than we can do it for, and perhaps there may be some arrangement made for loading tank trucks with the British American Company whereby they could do it for a lesser figure than we are able to do it, in view of the fact we have not now got in existence the facilities for loading of this kind.

Then there was something said on the question of branch lines or connecting lines. There is not a great difference of opinion so far as the evidence is concerned on those points. Dealing first with the construction of these service lines. Mr. Hull says at Page 6738 that there are no regulations in the United States compelling these connections at the Pipe Line Company's expense. At Page 6714, in Volume 55, he goes into a little detail about

what arrangements are made down there under circumstances of that kind. He says...

THE CHAIRMAN: What page?

MR. NOLAN: Page 6714, in Volume 55. He says:-

> "There is half a dozen ways it can be done. As I mentioned a little while ago the shipper or the carrier would determine about how much oil would be moved to justify the pipe line company to incur the investment. Then if the refiner has no way of guaranteeing that tonnage would move, and the pipe line company is not satisfied that the refiner is going to move the oil, or can move it, the pipe line company will then either require the refiner to guarantee in some way that they would pay for the line in the event that they moved only a small quantity of oil, or not enough oil to justify it, or they might require the refiner to build a line himself and agree to purchase it, either purchase it on months or years in instalments. In that way the pipe line company would guarantee itself sufficient tonnage to warrant the investment in the delivery facilities."

Mr. Naylor, at Page 6804 says that it is left as a matter of agreement between the parties, and that it depends, as Mr. Hull would also say to us, upon the volume that is to be transported and upon the financial responsibility of the shipper. Mr. Hull went further and said that so far as future connections were concerned they should be taken into consideration in estimating the investment of

the pipe line company, if it was felt that there were future connections to be made in addition to those which are actually and presently in existence. So far as the operation of these service lines are concerned, I think that there is no difference of opinion at all. Mr. Hull at Page 6715 said that the general practice is for the pipe line company to be responsible for the crude oil until it is delivered into the consignee's tanks. Then again he said at Page 6723, that the minimum delivery of 3000 barrels to a refiner is reasonable, with which Mr. Naylor agreed at Page 6808. Mr. Hull says that even if the refiner is handling 200 or 300 barrels per day, 3000 barrels as a delivery is not too much of a requirement to be enforced and placed upon him.

Now these are the main points I think that have been discussed since the Commission resumed its work. I have only this to add, Sir, that I commend to you again as a practical and economical way of getting out of a difficulty which may arise, that the offer of the Imperial Oil is a reasonable one and under the circumstances might well be taken into consideration and accepted by the Commission. The breakdown of the figures which are contained in that offer.....

THE CHAIRMAN: What difficulty do you have in mind that you say we might get out of?

MR. NOLAN: I was thinking of the confusion which might exist as to who is to be a public utility and who comes within the operation of the Act.

THE CHAIRMAN: Whoever else may be; whatever the Act may say?

MR. NOLAN: Yes.

THE CHAIRMAN: It was certainly the recommendation of this body that both of your clients be.

MR. NOLAN: Quite so, and the Interim Report so says in no uncertain manner.

THE CHAIRMAN: I express no opinion as to how far the Legislature has carried that out, or who else they may have included. But there is not any matter of doubt that that was the recommendation.

MR. NOLAN: None whatever, Sir.

THE CHAIRMAN: It being the view of this body that there were certain functions that a Common Carrier had to perform, and that the division of labour did not justify the exclusion of one of those who performed one of the functions that the Board, the regulatory body must have its finger on the operation as a whole. And a measure of control over it and over each and all of those who perform it, that operation. Now that was our view. If there is any question of the Legislature having carried that out, that, of course, is another matter.

MR. NOLAN: And that perhaps this is not the place to discuss it. I am quite certain of what this Commission intended to say in its Interim Report, but I am going further and saying.....

THE CHAIRMAN: These proposals are one thing, You have said the Imperial is prepared to do this but you have not said that it is to be implied that the Royalite is willing to accept the Imperial's proposal.

MR. NOLAN: Yes, they are willing.

THE CHAIRMAN: That is all very well, but that has had associated with it something that is impossible

for consideration at the moment by this body. I mention it now so that you may direct your submissions to it, that the Imperial be excluded as a public utility. Now I would suppose that if the time ever came that every single utility or asset which had to do with the operation of a Common Carrier in the carriage of oil, which in our view includes delivery to the consignees as well as to receiving?

MR. NOLAN: Yes.

THE CHAIRMAN: And transportation. I would suppose if that time came that each and all of the assets essential to the total operation were in the hands of the Royalite, there would be no desire to perpetuate the position of the Imperial as a public utility. But until that time comes in the view of this body it is and will be so treated.

MR.NOLAN: Yes. Of course, Sir.....

THE CHAIRMAN: Or rather should be so treated.

MR.NOLAN: I can quite appreciate any recommendation of this Commission insofar as the Imperial Oil Company is concerned is not because it is the Imperial Oil but because of the facilities which happen to be where they happen to be.

THE CHAIRMAN: The two companies happen to divide the labour which we think is peculiar to the duties of a Common Carrier,public duties.

MR. NOLAN: That is true.

THE CHAIRMAN: We may be wrong but that is our view.

MR.NOLAN: We have these facilities situated as they are now, four-fifths of their use being devoted to the private use of the company which owns and

constructed them, and there is going to be a very serious question arise as to the severance of these assets, on the one hand into a public utility - if that be done - and on the other hand what shall remain in the possible ownership or control of the private corporation itself. What I am saying to the Commission is, that rather than get into any difficulty of that kind on the question of severance, rather than expose other people who are performing a like service incidental to pipe line operations, if you like, to being made or deemed to be included in the public utility clause of that Act, it would perhaps be the better way to permit the Royalite Oil Company to perform this service, because as far as the evidence is concerned we can do it cheaper than anybody else.

THE CHAIRMAN: Of course at the moment it is difficult to see wherein it is more involved in connection with this terminal service than it is in connection with all of those so-called indirect assets of which we heard so much, and for so very long, the blacksmith shop, the place where they fix cars, the pumping station, the steam plant down in the Valley. It is all tied up and it just so happens that two companies are mixed up in it too. Now we are dealing at the moment with one phase of the activities of both companies, and say in respect of that activity that when you are unmixed then it is time to talk about there being but one utility. But even as you do the mixing, and quite properly so, so must you do the unwrapping, and if and when that time comes to pass a new situation is created. But it is not one that we are presently confronted with as we see it, Mr. Nolan. I make these observations only

that you can speak to them now.

MR. NOLAN: But I may remind the Commission that these assets which we call utility assets and are used in part by the pipe line department, are assets owned by the Royalite Oil Company and used in the various departments of that Company. But when we discuss the assets of the Imperial Oil Limited we are discussing the assets which are completely outside of the Royalite Oil Company and outside of any of its departments. And my point is this, if the aim and object.....

THE CHAIRMAN: There is an inter-mixing within the company on the one hand and the other is an inter-mixing between companies?

MR. NOLAN: There is that distinction. What this Commission is striving to do as I understand its aim and object, is to get for the people who use this pipe line the best and cheapest service possible commensurate with a proper return on the investment for the people who operate that line.

THE CHAIRMAN: And it is proper to add, whether we be right or wrong, a proper measure of control in the future.

MR. NOLAN: Yes. But if the price or the offer of the Royalite Oil Company as to the amount of money, commends itself to the Commission as a reasonably fair and cheap proposition - let me put it in those ordinary words, a cheap proposition - why then does there remain any necessity for this control, because the people are getting as good if not better service than they would get if there was control put upon those assets by reason of the jurisdiction

of the Utility Board. Because it does not always follow that because facilities are placed under the control and operation of a Utility Board that the service to the consumer is going to be cheqper than it might be done by a private corporation. Because we take into consideration many many things. The control is there, I agree. That is the essence of public utility law, that there shall be a body who shall say "You shall charge so much and no more." That is the end all and the all.

THE CHAIRMAN: And something more, as to how you shall do it to preclude discrimination; to do it in a manner that is efficient and that will best serve the public. Something more than just the price.

MR. NOLAN: All right, Sir.

THE CHAIRMAN: As I appreciate the administrative law,

MR. NOLAN: Forgetting for the moment the question of price. On the evidence no one has ever suggested and no one can suggest that we do not perform the service in connection with this pipe line efficiently and well from the point at which we take the producers' oil to the point where we deliver it into tank cars, under our present arrangement in East Calgary. So I submit so far as efficiency of operation is concerned, no one can say as it now exists under the control and ownership as now exists, there is any lack of efficiency. Or to put it another way, that it would be any more efficient if it were under the operation and control of a company in turn controlled by the Public Utility Board.

Then so far as discrimination is concerned. What

ground is there for supposing there will be any? Against whom might it be levelled? We have agreed to sell to these independents and we propose, if permitted, to carry on that service. Is it to be suggested we are not going to serve some one of them in view of the statement which I came before this Cokmission and made solemnly here, and which is on the records of the Commission? So that I submit, Sir, so far as efficiency and discrimination are concerned, there is no charge to be levelled against what we are now doing and what we would continue to do if we were permitted to do it as a private corporation. After all if the public wants efficiency of service and wants to be treated equally and impartially, we are prepared to do that as we are doing it now. No one comes forward and complains. There is no ground of complaint as to our efficiency or that we discriminate one as between the other. Neither is there any ground for complaint that these prices which we offer are prices which are in excess of what that particular operation would justify. We offer to do this for 2 cents, with an additional half of 1% for losses. The evidence of Mr. Hull and Mr. Naylor is.....

MR. FRAWLEY: Plus storage.

MR. NOLAN: That it is customary in the United States to perform that service for 2½ cents. And when we turn to tank trucks, and I say 7½ cents. Mr. Naylor has, in his own words, expressed it as a "shot" and said 5 cents. He put 2½ cents on top of the 2½ cents and said 5 cents. These gentlemen do not know how much it costs to perform that operation. They do not perform it. We do, and we come before this Commission

with a breakdown of the cost of loading these tank trucks, and are prepared to do it for that amount of money if permitted to do it under those circumstances, or we are quite willing that the tank truck loading be taken over by the British American Oil Company, if they have facilities with which to do it, and if the price which they should quote should be less than ours. But it is important from my point of view to know whether the recommendation of this Commission is going to permit everybody to do tank car and tank truck loading. In other words, are we to make any expenditures at our terminal, either by way of terminal storage or by the erection of additional tank truck loading facilities if other people are going to be permitted to enjoy part of that business. There might be many of the independents who would much prefer to buy their oil from Mr. Plotkins or from the British American Company. Are they to come in on that? Because if they are it makes it a very questionable matter as to whether the recommendation of this Commission should be that the amount of money should be expended to increase truck loading facilities, to get these tanks in operation and set up if the business is not to come to us.. That is one of the things which concerns me particularly. Is it that the Commission would go so far as to prohibit Mr. Plotkins, the Lion Oils, and to prohibit the British American Oil Company from operating this service at all, because they can perform it just as easily as I can. They would have the direct line to their refineries. They could do the tank car loading just as easy as the tank truck loading there, just as well as the Imperial

could, and it may be that they want to continue to do it. My point is if they do, and if my friend's interpretation of this Act is right, they do it as a public utility. Are we going to have all these terminal loading facilities divided up amongst several companies? Their rate for doing it might not be the same as mine. My volume may be so much greater. My existing facilities may be of such a character that I can do it cheaper than they can do it. Well, we cannot have several rates for the same service by different companies, and that is a point which will have to emerge from the discussion which takes place here to-day as to who is to do this tank car and tank truck loading; if it is to be exclusively for me and my companies or whether it is to be shared between me and the customers of the other companies who are in the refining business. Those were all the points that I intended to bring to your attention. I understood we were to devote our minds to the evidence that has been given since we rose last. As I said in the opening, I have endeavoured by reference to pages of the evidence to bring back to your attention what I think are the highlights of the evidence which has been given.

MR.HARVIE: Mr. Chairman, I think Mr. Nolan has summarized the evidence very fairly, and very thoroughly, and commented on it in a similar way, with the result that it reduces my task to just a few comments that may be more or less applicable to our own requirements. Before touching those, I would like to make the remark in connection with the evidence given by Mr. Hull yesterday in reply to some questions of the Commission in regard to rates charged in the United States and in lines throughout the United States for transporting

and handling oil over distances that may or may not be similar, or under conditions that may or may not be similar to those that we are faced with here. Several rates were quoted, and while maybe Mr.Hull could be considered a witness submitted by my client, I do not wish it to be taken that we wish to subscribe to his evidence on that the rates charged as being applicable to this Royalite Pipe Line, be it 5 cents or 15 cents or a higher cent rate. I think Mr. Hull made that very clear those were rates that were being charged. He did not even suggest they would be fair rates under the circumstances we are faced with here. I think that is all on that. There was also another matter in connection with the statement made by both Mr. Nolan....

THE CHAIRMAN: Of course, Mr. Harvie, you have not as yet, speaking for your principal, said to us you think any rate is too high or too low or just right.

MR.HARVIE: No, I have not.

THE CHAIRMAN: In view of the very proper interest your principals have taken from the beginning to the end in this whole matter, it seems to us passing strange that that should be so, you being one who is interested. Your interest cannot be doubted, so long as we think of you as an independent company.

MR.HARVIE: We wish to be thought of that way, which I think the evidence is. Possibly the only statement I can made in that regard is this that we did feel if we supplied the evidence and comments on the evidence as to what the usual practice and fair charges and so on were, that it was possibly not

our duty to add the figures together and give a figure to the Commission. As long as we saw the Commission got all the information from which it could arrive at that figure.

THE CHAIRMAN: Having regard to the witnesses you have called, and through them the evidence which you have led, what do you say their evidence points to?

MR.HARVIE: I would say that we must possibly take the evidence as to the capital investment, the operating costs and facilities required, that have been given and not contradicted by us or other parties. I have already made a submission as to what I thought the possible principle should be to be considered by the Commission in arrivng at that rate, such as we should take the evidence of Mr. Hill, its present replacement value less observed depreciation as the figure for a basis to arrive at the base rate and so on.

THE CHAIRMAN: You are getting the service now?

MR. HARVIE: Yes.

THE CHAIRMAN: One would expect that you would have an opinion as to whether or not you were paying too much for the service rendered or too little or just right.

MR.HARVIE: Our submission is that we think the rate now being paid is high.

THE CHAIRMAN: Too high?

MR.H RVIE: Too. high.

THE CHAIRMAN: Have you any submission to make as to the proper rate, and assuming we did as you suggest, we had regard to the capital investment and

so on as determined by the witness whose evidence you commend to us, Mr. Hill, what have you to say as to that rate of return to be allowed. Not the service rate now, but rate of return.

MR.HARVIE: I think that has been dealt with at least to some extent by the Commission. It depends on how long a period of amortization is being allowed. If it is a short period the amortization rate should be considerably lower.

THE CHAIRMAN: I am speaking of the rate of return on the money.

MR.HARVIE: And I am speaking about that, Mr. Chairman. I think this, if the period of amortization is, we will say, 20 years, I think the risk is greater than if that period were only 10 years. If the risk is greater the rate of return on the money invested should be higher. I think that is the evidence submitted by quite a good many of the witnesses, in which we agree.

THE CHAIRMAN: All right.

MR.HARVIE: There is also the matter of the offer to sell surplus crude made by both my client and Mr. Nolan's client, and it was made on the understanding that it was a temporary arrangement. There are matters of degradation and so on that might develop that have not yet been experienced and as far as my client is concerned we just wish it understood that while we think this is maybe a proper way to proceed at the moment, as suggested, there might be a situation arise after we have had some experience that we would wish to speak about to the proper authorities, but, I understand, it will not be before you possibly.

THE CHAIRMAN: Not possibly, certainly.

MR. HARVIE: Not unless refining costs or something of that kind, during the refining period, the matter of degradation may have considerable to do with the costs of the crude to the refinery, but not on this phase.

Now, coming to the matter immediately before us, our submission is that it would be proper in this case, - and I think the evidence of Mr. Hull, Mr. Naylor and others, confirms it, that there should be a combined rate to cover the gathering and transportation costs to the tankage of the consignees, be it refineries or others, and then a separate rate for any additional facilities, such as loading into tank cars or tank trucks. As to costs and so on I have no comment to make. I think the evidence of those two witnesses has been quite exhaustive and quite clear and quite fair.

THE CHAIRMAN: It is your suggestion then that effect should be given to that evidence you have just referred to , is it?

MR. HARVIE: Yes.

THE CHAIRMAN: That there may be a separate rate for loading, at least a separate charge, whether it be called a rate or not, for loading into tank cars and tank trucks.

MR. HARVIE: Yes, Mr. Chairman. In other words, in this case there should be two rates, one combined rate to cover gathering and delivery into consignees' tanks, and an additional rate to deliver from there into whatever vessel deliveries are made.

THE CHAIRMAN: I see.

MR. HARVIE: Then we also think that----

MAJOR LIPSETT: Mr. Harvie, have you considered the case of somebody who buys oil in the Valley and wants it put into tank cars by the pipeline company, as distinct from any refinery?

MR. HARVIE: Well, we have the evidence of the Anglo-Canadian on that, Mr. Commissioner. They buy, either buy or produce oil, which may be the situation in the Valley, and transport it through the facilities offered by the Royalite and the Imperial at the moment and ship to their Brandon refinery, I presume that is the type of case you have in mind?

MAJOR LIPSETT: Yes, they should pay then the rate for transportation plus that charge for the loading in Calgary done by the utility.

MR. HARVIE: Yes, the same as we would, the British American or the Imperial would in connection with our shipments to all refineries outside of Calgary. We bring in our oil to our refinery in Calgary through, I mean according to my suggestion, one rate, at one rate for it, paying one rate for it, and such as we use in Calgary, that is the end of that; such as we ship to Moose Jaw or other refinery should bear that extra rate for loading.

MAJOR LIPSETT: In your case that would be your own cost of the loading?

MR. HARVIE: Yes, and it would be, take the Anglo-Canadian or any person else wishes to build the same facilities as we have, they can put up their tanks some place near the terminal of the pipeline,

take deliveries the same as we do and put in their own loading facilities, nothing to prevent that.

MAJOR LIPSETT: What I had in mind, your combined rate would include delivery to any refinery in the Calgary area or into a tank of anybody who wants to ship out by tank cars?

MR. HARVIE: I think I did use the expression "consignees' tanks", not necessarily restricting it to the refineries.

MAJOR LIPSETT: Then supposing a trucker put up his own tanks, the combined rate would include putting it into that tank for the trucks as well?

MR. HARVIE: So long as he took it at the minimum deliveries of either the 1500 or 3,000 barrels a day, I think it should be, and I think that puts everybody on a fair and competitive basis without any discrimination, and that is why I submit that that is maybe the proper way to handle it.

Now, another point is one that we are quite interested in and that is as to the branch lines from the trunkline to the tank, whether it be the refinery's or otherwise------

THE CHAIRMAN: Before you go into that, have you anything to say about the minimum per day?

MR. HARVIE: Yes, I say that I think 3,000 barrels a day is fair as the evidence is. I think the offer------

THE CHAIRMAN: 3,000 barrels at one delivery.

MR. HARVIE: At one delivery, I should say, regardless of the day, is a very fair minimum.

THE CHAIRMAN: For one pumping?

MR. HARVIE: For one pumping.

THE CHAIRMAN: And daily taking?

MR. HARVIE: I think that should be more, given consideration to more as to the question of who pays for the extra connection. I think possibly if the consignee only takes 3,000 barrels a month, if he has built his own line and wanted to get his cost back through an allowance for that line, I do not know whether it is very material. The real cost in making that delivery is supplied, I think, by the amount of each delivery rather than anything else. The reutrn of the capital on an investment of that kind is a matter to be dealt with.

THE CHAIRMAN: That has only a bearing on whether or not it would be good business for the pipeline utility to go to the expense of putting in the line, that is its true bearing, is it not?

A Yes.

Q THE CHAIRMAN: That if it be required or the refining consignee desires to spend his own money and put in his own line it should not be particularly the business of the carrier company how much he took, providing that he took a given quantity in each pumping?

MR. HARVIE: I think, generally speaking, I think that is fair, and particularly so where we assume that no connection will be made without possibly either the consent of the pipeline company or a reference to some public Board, the Public Utilities Board, or

something, where it is satisfied that it is being dealt with fairly.

THE CHAIRMAN: I understand you, Mr. Harvie.

MAJOR LIPSETT: On the question of the 3,000 barrels at a time, Mr. Harvie, have you considered the evidence of, I think it was Mr. Naylor, he said that in Montana that figure was fixed at 500 barrels.

MR.HARVIE: Yes, I heard that, and I think, under the circumstances here on the instructions I have received and from information I have been able to gather that possibly that is too low a figure to apply here.

THE CHAIRMAN: And 3,000 might be high?

MR. HARVIE: In my submission-----

THE CHAIRMAN: We are not married to either one or the other.

MR. HARVIE: My contention is that I think that is a fair figure. I think the figure as offered by the Royalite of 1500 barrels, in one delivery, is an extremely fair figure.

MAJOR LIPSETT: That 3,000 figure, one of the witnesses accepted that figure when it was put to him, and he qualified that to some extent afterwards by saying that if that was not suitable to the consignee that a lower figure would be considered.

MR. HARVIE: Yes.

MAJOR LIPSETT: Do you think anything specially of that figure of 1500?

MR. HARVIE: I think that it is a very reasonable figure and if the Commission thought that

that was a fair figure, I would certainly not take any exception to it, but if I were asked for a figure, if we were performing that service, I think 3,000 is a very fair figure.

MAJOR LIPSETT: Supposing a truck, a refiner using trucks, was willing to put up his own tanks to get delivery, would it not be excessive to ask him to take 3,000 barrels at one time into the tanks?

MR. HARVIE: It is quite possible it would, and in that case there might be an additional rate for smaller deliveries to look after the cost of the loader and gauger and so on. There might be an additional cost in that connection and that might be the fair way of doing it, but I think the 3,000 figure is only taken-----

MAJOR LIPSETT: I am sorry, if I might interrupt you again, Mr. Harvie, but I gathered from your previous remarks that if a trucker was willing to put up its own tanks, that it should get delivery into that tank at the transportation rate.

MR. HARVIE: Yes, if they bear their own capital cost of the installation or their business warranted it.

MAJOR LIPSETT: Of the storage tanks?

MR.HARVIE: Yes.

MAJOR LIPSETT: Following that up, would it be rather much to ask a man who is going to take it by truck to put up a 3,000 barrel storage?

MR. HARVIE: I think that is a question for him to decide, if that is the regulation, whether they should go into that on that basis or not. I think

this, there may be a phase which has not been mentioned, which should be given consideration to, and that is that at the present time where we estimate 6,000,000 barrels a year throughput of the line. Now, for the moment that is going, to all intents and purposes, to three companies, the Imperial, the B. A. and the Lion. Now, that is possibly supplying all requirements that will be supplied from this field and with only three connections it is possibly a very reasonably cheap service; if a dozen other small refineries or shippers come in and add, do not increase the throughput of the line, but take away from the 6,000,000 that is now being handled by three, it is going to increase the cost of operating that line and the rate for all of us. Now, I think some consideration should be given to those that are now paying that rate and not just because a person wants to start up every day in some small way, give him a service that, perhaps, he is not entitled to, which will have the effect of increasing the rates to those that are now using the service. In other words, I think care should be taken before any permit was granted to tap the line or to add an additional facility to see whether the business will warrant it under the circumstances.

MAJOR LIPSETT: I was just following your suggestion of a truck putting up its own tanks?

MR. HARVIE: Yes.

MAJOR LIPSETT: I thought that might, perhaps, be the best arrangement, and I was trying to follow out that suggestion of yours to see how it would work.

MR. HARVIE: I gather that your thought is that possibly the requirement that he had to have a 3,000 barrel storage, or take that much in one delivery, would be an onerous burden on a small shipper.

MAJOR LIPSETT: And possibly not the best way of delivering to a truck at all, possibly the other alternative might be better of him getting it at the end of the utility.

MR. HARVIE: At some rate, 7½ or 5 or 2½, that might be specified.

MAJOR LIPSETT: Yes.

MR. HARVIE: I think the shipper would have to weigh that in each case.

Another point is that in connection with the operation of branch lines, I have tried to emphasize that before and I think possibly,- I gathered from Mr. Nolan's comments that there possibly is no dispute as to the fact that the operation of branch lines to consignees' tanks should be carried on by the pipeline company, regardless of who owned the line or who paid the capital cost of that, and my submission is that that is the case, that the pipeline company should carry on operations into the consignees' tanks.

THE CHAIRMAN: As part of the rate?

MR. HARVIE: As part of the rate.

THE CHAIRMAN: Yes.

MR. HARVIE: Now, the only other comment is in connection with the terminal facilities.

MAJOR LIPSETT: Excuse me, Mr. Harvie, for interrupting again, but have you dealt with the

capital cost of the connection to the refinery?

MR. HARVIE: Our submission is, Mr. Commissioner, and I think I have already made it,---

THE CHAIRMAN: It is a matter now, is it not, between you and Mr. Coultis, right now?

MR. HARVIE: Yes, it is. I have already submitted previously, and I was not repeating, where I thought there was no necessity; our submission definitely is that the capital cost should be put up by the pipeline company, and in that connection we, in our case, and we are giving deep thought to that-----

THE CHAIRMAN: But why do you say so? Perhaps, you are quite right, but I would like to hear the reason why. Now, if it is good business for the pipeline utility to provide connections, it is to be assumed that they will provide them free.

MR. HARVIE: Yes.

THE CHAIRMAN: But if the pipeline company, and when I say "company" or "companies", let us have no confusion about that, if the utility is of the opinion and says that "We do not think it is good business to pay for this connection", then on what principle should they be forced to make the connection that they do not want to make?

MR. HARVIE: Possibly my remark, Mr. Chairman-----

THE CHAIRMAN: Except at the expense of the person who says "I am entitled to get the oil and I am entitled to get the oil at the refinery on the same basis as every other refinery." That is all right, but if the refinery that is first there happens to be in a contiguous position to the line, all right,

but if you go 10 miles off and you say "This is good business; therefore, you pay for my service line", surely the other fellow might be heard to say "Well, we think it is not good business, we will not pay for your line, who are you to tell us what is good business for us?"

MR.HARVIE: I think possibly I did cover that in this way, Mr. Chairman, I said that the evidence is, and I think I agree, that if two companies can come to a satisfactory agreement, that they should be allowed to do so; that agreement, I think, should be subject to check and control by some governing body such as the Utilities Board, to see that there is no undue preference given. I think that is the purpose of the Public Utilities. I take that for granted, that was the suggestion before.

THE CHAIRMAN: And the only thing standing between you is that, certainly Mr. Plotkins has urged and, doubtless, will again urge, that the utility, the pipeline utility, should pay for his connection.

MR. HARVIE: Yes.

MR. CHAIRMAN: I understand that you are, on the one hand, urging the pipeline utility should pay for your connection, the service to your refinery, and that equally Mr. Nolan for his client says he should not pay for either one or the other; that, I understand, is the position to-day, and now all we have heard, as I appreciate the evidence from the witnesses to date, is that the pipeline utility should do this because it is good business for them to do it. Now, who is the judge of that?

MR. HARVIE: Well, it should be------

THE CHAIRMAN: It is quite a different thing to say that the pipeline shall not arbitrarily refuse to give you oil when you come with your bucket or with your service line, as the case may be, that is one thing, but to say that they have to buy you a bucket or a service line seems to me another thing.

MR. HARVIE: I agree with that thought, Mr. Chairman, that it is a case where the business warrants it and the two companies can agree, that it is a proper one, and if the terms are satisfactory to some governing body, then that is a matter of agreement. Where you say the pipeline company is not satisfied that the business warrants it or that it is good business, I think then the applicant can apply to the Public Utilities Board for directions, and if the Public Utilities Board agree with the pipeline contention, they can then set the terms upon which the applicant will get that connection, such as to put up the cost and get a rebate, or does not get a rebate, as the case may be; if, on the other hand, the Utilities Board think that it is a fit and proper case that the pipeline company should put up the capital cost of that connection even if the pipeline company does not agree with it, I think that they should so order.

MAJOR LIPSETT: That is, more or less, making it a discretionary matter in each case.

MR. HARVIE: I think it is bound to be that.

MAJOR LIPSETT: Taking distance and business and everything like that into account.

MR. HARVIE: I think it is bound to be that. I think any other system would be most unfair, where one man might be forced to build a line and another man not.

THE CHAIRMAN: No one can question that it is always, - well, subject to what it may be as to the rate, - no one can question though that at the moment if the pipeline company wanted to put in service lines at their own expense, I do not suppose anyone would say they should not, but to say it is a matter of discretion in every case as to whether or not you make the public utility spend money to provide a service which is exclusively for you is quite another matter, I think.

MR. HARVIE: If it can be arranged by agreement the matter is looked after and if it cannot be arranged by agreement there is, or I submit there should be, an appeal to the Utilities Board to be dealt with, so, of course, the agreement might be in one of two ways, it might be an agreement that the pipeline company agrees to put up the capital cost and alternatively it might be that the applicant is prepared to put up the capital cost and get it back on some basis.

THE CHAIRMAN: If you come to an agreement that in the opinion of the regulatory body, that agreement is not adverse to public interest, that is the end of it, but I am speaking of where there is no agreement and where it is thought that now, there must be some principle to be invoked on which you act as a recommending body in recommending one or

the other.

MR. HARVIE: Yes, I think each case ought to be dealt with on its own merits by the regulatory board.

THE CHAIRMAN: Well, what are the merits, what principle underlies this, it is proposed that somebody else pay for the line to your plant, well, on what principle is that to be compulsorily brought about, that is all I want to know.

MR. HARVIE: I am not saying it is not right, the regulatory body may not say it shall do so compulsorily, they may say the only way you can get that service, in our opinion, is for you to build your own line.

THE CHAIRMAN: On what circumstances would it not be fair to build your own line?

MR. HARVIE: I can illustrate one, if I should develop a new market of a million barrels a year and that would be new throughput to the line.

THE CHAIRMAN: Yes, and new business for you through the line?

MR. HARVIE: New business through the line.

THE CHAIRMAN: For your benefit too.

MR. HARVIE: That that would be a proper case and possibly have the effect of reducing the rate for every person ultimately by increasing the throughput of the line, and I think there would be no question that that would be a proper case.

MAJOR LIPSETT: There does not seem to be a complete analogy between the collecting in the

field and the delivery at the Calgary end, because you do not suggest that delivery should be made to tank cars as part of the service?

MR. HARVIE: Oh, I do, but not in the one rate.

MAJOR LIPSETT: That is what I mean.

MR. HARVIE: I think there should be additional facilities, if there is the need for them, and I think there is.

MAJOR LIPSETT: But what I mean is, there is not a complete analogy in that suggestion with the Turner Valley end, where you do all of that service in the one rate.

MR. HARVIE: In Turner Valley it is all one service, taking from wells.

MAJOR LIPSETT: From every well.

MR. HARVIE: From every well. Now, at this end there are three different types of delivery and my original submission was that there should be an inclusive rate for each type of those services with additional rates for the more expensive ones.

MAJOR LIPSETT: On that principle would it not mean a cheaper rate in Turner Valley for a well within a half a mile of the pump, as distinct from a well 5 miles away?

MR. HARVIE: I think a great many things come into consideration there, and one might be this, that so long as the field is under conservation and pro-ration as a unit, that if you do not go to a well

you are losing throughput; for instance, we will say the Home Well is in the north end of the field and it is not connected with the pipeline, and we will say its allowable is 500 barrels a day, and the Royalite does not go to that and tie in on that, that oil is going to be trucked away or something, and they are going to lose the business, with the result that their throughput will be, we will say, 14,500 a day instead of 15,000 a day. Now, I do not think that is the situation at the terminal end of the line, because it is all coming in that far anyway and there is just the various kinds of delivery.

MAJOR LIPSETT: Would it not be rather doubtful whether that is the real situation in Turner Valley, supposing the Home-Millarville well came in and the pipeline said "We will not connect with the Home-Millarville because we have planty of oil within the conservation limits from the other wells."

MR. HARVIE: But I think the Conservation Board would say "What are the requirements," we will assume they are 15,000 barrels, and whether the pipeline connects with the well or not, I think the Order will only allow the 15,000 barrels to be produced from that field, of which 500, to use my illustration, would come from the well which was not connected, and that would reduce the throughput of the line by 500 barrels.

MAJOR LIPSETT: Perhaps, I am getting wholly away from the subject, but that does not necessarily seem to follow, it might equally mean that that well could not sell its crude, and that it would still go through the pipeline from the other wells.

MR. HARVIE: Of course, I do not propose to answer all these conjectures, but I do think that if we are going to consider we are operating under the Conservation Act as a unit control of the field, that it is essential within that unit all the wells should be connected by the pipeline in order to pro-rate the market equitably.

MAJOR LIPSETT: Now, I quite see that in Turner Valley; there is a complete system down there in Turner Valley?

MR. HARVIE: Yes.

MAJOR LIPSETT: Well then the Calgary end, there are these various other difficulties.

MR. HARVIE: I think not if it is simply down to where they are all coming to one common point, which is, we will say, the consignees' tanks, be it whatever it is, then if the man wants to leave his oil there and pay rent for it he can, and if he wants to take it away in trucks he can, but he pays the extra rate; if he wants to take it into tank cars he can do so, and if he wants to do anything else with it he is free to do that by paying the extra rate, you may as well say why not include the freight from Calgary to the Regina refinery in that rate? That is an extra service which the man in Regina needs to get the oil down there, that is the freight.

MAJOR LIPSETT: Yes, but in my case you are going a little further than that, you are saying that your refinery is connected with the terminus of the pipeline, equally with the Imperial.

MR. HARVIE: Yes, equally with the Imperial;

MAJOR LIPSETT: And that everything up to that should be paid for by the pipeline?

MR. HARVIE: Yes. Now, that is all.

THE CHAIRMAN: Mr. Nolan, do you care, before Mr. Plotkins starts, would you care to discuss what should be the rate allowed in respect of the terminal handling, which you were discussing as a service rate?

MR. NOLAN: Well, I submit, Sir, that on the evidence-----

THE CHAIRMAN: Supposing, to put it to you clearly, supposing we were not satisfied with the evidence which we have, having regard to its character, and that the persons who created it in great measure were not here to swear to it, that we could not, therefore, set a rate-base, but that we would look to what is the fair and proper service rate for the service to be rendered, what would your submission be then?

MR. NOLAN: 2½ cents for tank cars and 7½ cents for tank trucks.

THE CHAIRMAN: Thank you; all right, Mr. Plotkins. Just a moment, Mr. Plotkins, before you start, Mr. Nolan, might I suggest one thing that you, perhaps, have not covered. I thought previously you had, by way of submission as to the position of your principals in connection with the B. A. and Mr. Plotkins, or the Lion Refinery, as to who should put up the capital costs and how the service should be

handled and who should pay for it.

MR. NOLAN: Insofar as branch lines are concerned?

THE CHAIRMAN: Yes, service lines from the main pipeline to the refinery.

MR. NOLAN: Who should pay for it?

THE CHAIRMAN: Yes.

MR. NOLAN: It is not clear from the evidence who should pay for it because they say, these witnesses who have been before us, that they know of no instance where there has been a compulsion upon the pipeline company to so construct, but that it is left as a matter of agreement.

THE CHAIRMAN: Just assuming we feel that you should make another assumption, that we consider it our duty to recommend what we thought fair, what would be your submission under all those circumstances?

(Page 6944 follows.)

MR. NOLAN: It seems to me, Sir, on that point we have the evidence of Mr. Hull, who goes into detail about it, and I think it amounts to this, Sir, that even if the customer does pay for it that he should be repaid for what he has expended, out of the rate. As I understand it that was his view.

THE CHAIRMAN: I thought he said that the volume was enough to justify it.

MR. NOLAN: In other words, the pipeline company would make enough out of the additional connection to make it worth their while to reimburse the customer for the connection. I think that is what his evidence came to.

MR. FRAWLEY: If he could do it in three or four years, he said. If in three or four years there should be profit enough.

MR. NOLAN: Yes.

THE CHAIRMAN: Mr. Naylor wanted to get it back in a year?

MR. FRAWLEY: Yes.

THE CHAIRMAN: In the result what do you submit to us, Mr. Nolan?

MR. NOLAN: As to who should pay for these branch lines?

THE CHAIRMAN: These two lines, the one to the Lion and the one to the B. A., on the assumption we should ultimately recommend that the B. A. is entitled to the connection, or at least the Lion is entitled to the connection. The B. A. already has it.

MR. NOLAN: That is a little difficult to answer, Sir. You do not mean as a general principle.

You mean as applicable to these two particular companies, the Lion and the B. A.?

THE CHAIRMAN: They are the ones that are immediately before us and there may be the future question, no doubt, as to whether or not there should be zones and all that, and as to whether these corporations should not pay for their own connection, on the reasoning that the Imperial had the good fortune to be at the end of the terminal or near to it, but that good fortune of theirs was largely because of the fact their good dollars were spent, and that those who go afar should pay for the connection. That is one point of view. The other point of view is, well if it were not for the circumstance that these are opposing refineries clashing with each other as a matter of good business this pipeline should have made these connections long ago at its own expense. That is another point of view. I just want to know what you think about it.

MR. NOLAN: I would think that the pipeline company should pay for the connection and have it included in the rate-base.

THE CHAIRMAN: The pipeline company should pay for the connection and have it included in the rate-base. Then those people who had nothing to do with refineries would be paying for it.

MR. NOLAN: You mean the people who wish to take it in tank trucks?

THE CHAIRMAN: Yes, all users of your line who do not happen to be one of these three refineries.

MR. NOLAN: I do not know how we are going to split it up. It is so difficult, because

the fact is that these refineries are the best customers. There is no doubt about that. They help to keep this rate down. If there is additional expenditure it seems to me that should go into the rate, and the fact that somebody is transporting that distance should, in getting that precise service, should help to pay for it by paying the rate, whatever it may be. It is only because of the different requirements of the tank truck and tank car people that it it not delivered to their own refinery.

THE CHAIRMAN: If you think that what are we going to add to the base? We have no evidence what the cost of the line from your terminal to the B. A. refinery is.

MR. NOLAN: There is evidence available.

THE CHAIRMAN: If that is the submission it is not supported by evidence.

MR. NOLAN: I have just been discussing with my friend. What I mean to say is, and I think you understand me, any additional capital expenditure that has to be made of this kind or character is taken into consideration in fixing the rate to which this pipeline company will be entitled. It is not, perhaps, accurate to say it is in the rate-base, but it is part of the additional operating expense to be met by reason of the additional capital expenditures that have to be incurred.

MR. COMMISSIONER LIPSETT: Except this, Mr. Nolan, that in this particular case of the B. A. the money has been expended.

MR. NOLAN: By the B. A.

THE CHAIRMAN: We do not know that.

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MR. COMMISSIONER LIPSETT: Well, we do not know that.

MR. NOLAN: In this particular case it has been expended, yes.

MR. COMMISSIONER LIPSETT: What I mean is if it was to go in, as you suggest, as part of the rate, then it should be in the capital expenditure as of to-day.

MR. NOLAN: If it has already been expended.

MR. COMMISSIONER LIPSETT: Yes, if it has already been expended.

MR. NOLAN: Yes, that would seem quite clear, because it is part of the rate-base as being money which has been expended. It is not so much of capital expenditure to be made in the future.

MR. COMMISSIONER LIPSETT: Would it not be possible for us to get the cost of that?

THE CHAIRMAN: The only evidence we have, we have the very clear statement of Mr. Coultis that you should not pay it at all. That is a very different thing.

MR. NOLAN: Yes, his opinion is that it should be paid by the refining company. What I am saying is that the evidence is-----

THE CHAIRMAN: An opinion for which I thought there was much to be said myself. You say that is not so. You say it should be in the rate.

MR. NOLAN: I say the evidence is, and we have to take what the evidence is, that it goes into the rate. I think Mr. Hull is quite clear on that point, that it goes into the rate and I get it back if I do make that expenditure. I am repaid it. It is not as if I am out of pocket for doing it.

THE CHAIRMAN: I did not understand Mr. Hull to suggest that the rate was to be increased periodically in that way. He said if it is good business we will make, the connection. If these people do the business they say we will give them a drawback, so to speak. I did not understand him to suggest that the rate was to be - the service rate to be paid by the general public was to be affected from time to time by those connections. He said if it was not good business they did not give them the connection. If it was they did it out of their own pocket. In cases where they were in doubt as to the business being good enough they waited and saw. They required the man wanting the connection to put up the money first, and when it proved good enough they started giving him drawbacks. I do not recall the evidence of a single witness saying that this should be paid for by your principals and put in the rate. That is in the rate base on which a return would be allowed. Mr. Coultis was clear you should not pay it at all.

MR. NOLAN: I am clear that if it is not in the rate I do not want to pay for it. And the man who wants that connection should not pay for it himself because if I am a public utility and I am expending money, it seems to me that I ought to be permitted to earn, or to get back that expenditure just as I have been permitted to get it back for the expenditure in my pipe line and in the gathering system and in those gathering systems which are yet to be constructed.

THE CHAIRMAN: If we adopted that view

where would we find what should go into our rate base in respect of Mr. Harvie's principal's line?

MR.NOLAN: From Mr. Harvie.

THE CHAIRMAN: Far be it from me to suggest that there be any more evidence on the pipe line. But aren't you a little short to support that submission, I mean.

MR.NOLAN: Maybe I am. I haven't that evidence even if I wanted it.

THE CHAIRMAN: You haven't?

MR.NOLAN: No sir. That is the position you see.

MR.HARVIE: I haven't got it. I may be able to get it.

THE CHAIRMAN: Anyone interested can always get evidence by simply saying whom they want called.

MR.NOLAN: Yes, and Commission Counsel is perhaps the person most vitally concerned.

MR. FRIPLEY: What?

MR.NOLAN: As to how much it cost to make the connection with the British American Oil Company in dollars and cents, so that the Commission may have some idea of what there was in that expenditure.

THE CHAIRMAN: We have evidence from Mr. Coultis and Mr. Plotkins both on the other.

MR.NOLAN: My friend says we do not require that evidence and you can straighten this out for us without it.

THE CHAIRMAN: We do not require it?

MR.NOLAN: That is what he tells me.

THE CHAIRMAN: He may not require it for the

purposes of his argument but we may require it for the purposes of our recommendation if we were to accede to your submission.

MR. NOLAN: If it were necessary to have it would it not be a simple matter to have it put down on a piece of paper and handed to the Commission? There is no point in anybody being permitted to cross-examine on it. There is no secret about it, I hope.

MR. COMMISSIONER LIPSETT: Subject to the taxation by Mr. Frawley on the amount, I suppose?

MR. NOLAN: I was trying to avoid that and perhaps that would be avoided.

THE CHAIRMAN: I do not know. We will hear what Mr. Frawley has to say about it in due course. Go on, Mr. Plotkins, please.

MR. PLOTKINS: In view of my inexperience in summing up, and not having available to me all the transcript, I deemed it better to put it in writing and comment where necessary, the information and to give my views to the Commission. "In view of the fact that the Imperial and B.A., refineries have provided themselves with sufficient storage to adequately take care of their own crude deliveries, it is probably more equitable that other refineries be required to provide their own storage. If this principle is accepted as a reasonable one, and in view of Mr. Hull's and Mr. Naylor's evidence that this is the general prevailing practice in the U.S.A., then we can eliminate this factor from the functions of the Royalite pipe line." This is referring to the service deliveries into the consignees' tanks at refineries or otherwise.

"With respect to tank cars and tank truck deliveries, from the standpoint of the tank car shipper, he should, for the same transportation rate, be placed on an equal footing with the Calgary shipper who receives the oil in his own tanks. To include the loading into tank cars in the pipe line rate would encourage and increase the use of Turner Valley crude and would place the Western Canadian independent refiner in a more favourable position to compete in the matter of laid down cost with other crudes."

This is a point that has not been covered. In Western Canada we have a condition altogether different than in the United States, any part of the United States. We have what is known in the old business as a closed market.

THE CHAIRMAN: A closed what?

MR.PLOTKINS: A closed market. There is a tariff barrier which, while it is not a tariff on crude oil, there is impediment. In other words, crude oil has to be shipped in under certain conditions of gravity not to be subject to duty, whereas in Western Canada we can ship a barrel of crude from Turner Valley or any other Canadian field throughout the West, to anywhere else in Canada without being regulated or subject to any control by the Dominion Government. So that we have a closed market. And then there is another matter. In the United States as Mr. Hull pointed out, at least led us to believe, it is generally the shipper who purchases his oil direct in the field. That was why Mr. Hull had difficulty in understanding some of the remarks or questions by the Chairman of the Commission. He could not conceive a

condition where the pipe line company was the seller. He always referred to the fact that the shipper, and the shipper in his mind, and he made it plain in my estimation, was the producer or purchaser of the crude. The refiner purchased direct from the producer. Now here we have a condition where there is very little crude sold by the producer. The shipper or the seller is usually either the Imperial Oil or the British American, mostly the Imperial Oil. And when a refiner from any point in Western Canada comes to buy oil he is already at a disadvantage. He knows he is buying from his own competitor that competes not only in Calgary but in his home district. As a result he is on the defensive. Another situation arises there and that is due to the freight rate structure that has been built up in Western Canada over a period of years to points at which the Imperial, and in this case the B.A., refine or ship their oil and refine it outside of Calgary, are on a freight rate base that is a distinct advantage to any other point in Western Canada. With the result that the refiner seeking to purchase oil in Turner Valley when he goes to the Imperial, is not so much concerned about the pipe line price or pipe line charges or even the freight rate. He is concerned primarily with what that crude will cost him laid down and he translates that cost against the tank waggon for refined products in his own district,with the result that to-day we find a number of refineries purchasing their oil in the United States. Not because the oil is any better. In fact most of them would prefer to purchase this oil because it has certain distinct advantages. But due to the fact the cost refined of the products

that he makes from the crude are lower in cost to him than if he purchases Turner Valley crude and lays it down in his own particular refinery. When we take that into consideration we have a distinct different picture than what Mr. Naylor or what Mr. Hull could conceive. In the United States my knowledge and information is that refineries are usually competitive as to laid down costs. In fact anyone who will study field prices and rail rates will find that each refining centre is on a distinctinly competitive basis with one another, where in Western Canada that is not the fact at all. "This would increase the volume of crude marketed through the Royalite pipe line which would more than absorb the expense of loading tank cars." As Mr. Harvie has pointed out there is only 6,000,000 barrels went through the pipeline. That is true, and possibly this year there may be as much or more. But if we can displace crude that is now coming in from the United States there is no doubt that it is obvious that the percentage of crude or the volume of crude that will go through the pipe line will be in addition to what is already going or will go through normally. So it will increase the market for Turner Valley crude.

"While it is true that according to competent evidence the general practice prevailing in the U.S.A., is to consider the loading of tank cars a separate operation to be paid for by the shipper on the basis of value received, it should be pointed out that conditions in the transporting and refining of crude oil industries that generally prevail in the United States are not comparable with the conditions that are met with in the

production and marketing of Turner Valley crude in Western Canada. In the United States, generally speaking the shipper has usually open to him several sources of supply and competitive transportation systems." We have heard from Mr. Hull a very distinct picture of certain fields where one well had two or more connections. In other words, he had the option to ship through various pipe lines. He already has pointed out in his evidence that some pipe lines could get at a point at less cost than another pipeline, with the result there is interlacing transportation systems by pipe line in the United States, which places each shipper in a position to choose and arrive at a laid down cost factor competitive with other refineries. This condition does not exist in Western Canada or in the Turner Valley. "With the added advantage of buying his oil from the producer. Buying direct puts it up to the producer, if he wishes to establish a market for his oil, to calculate laid down costs that will meet the laid down costs of other competing fields and, as a result, conditions are created whereby transportation agencies adjust themselves to the necessities of the situation." In other words, in the United States the average field if it produces a grade of oil and is located in a distinct geographical situation and wishes to market its oil, that is the individual producer and all producers as a whole, they study the cost of laying down that crude to the market, and as a result they place themselves through their own efforts or by their own costs, in a position to effectively secure a market in competition with other fields. Now here we find a different situation. I am alluding

to that a little later on.

"Here in Turner Valley the Western Canadian independent buyer of crude cannot generally purchase from the producer, and the seller of crude is not interested directly in furthering independent markets for crude oil and is not concerned with the laid down costs."

It is obvious that the Imperial Oil, marketing in every hamlet practically in Western Canada with a purchaser of crude oil coming to buy crude from them, they are not very much interested in selling him crude to compete with themselves. Naturally the situation between buyer and seller is not the normal one as exists in the United States in the crude oil market.

"And is not concerned with laid down costs." You see the Imperial as the producer of crude through the Royalite they do not concern themselves with what it is going to cost the refiner in Yorkton to lay down his crude. They have set the price in this field. They have calculated the price they will pay for crude as on an average it will yield to them, the price laid down in any refineries they will be competitive with in other United States' fields. While it is probably right they should do that, due to the fact they have seen fit to so create conditions in Turner Valley that it is practically forced on the independent refinery to come and buy crude from them, they have disregarded and do disregard the position of the independent refiner so he is called upon to say "Well I will have to pay whatever it costs to compete with the Imperial Oil or other major companies and take whatever profit is left."

Whereas in the United States I want to point out again the competitive situations are comparable, one refining centre to another, and one field with another.

"On the contrary, conditions under the present system of nominating crude oil requirements, restricted production and no accumulation of storage for seasonal requirements; the refiner is forced to purchase from his competitor who finds it more profitable to have the independent refiner faced with higher laid down costs."

It is obvious that being in the business to make profits, to increase our business we do not wish to place our competitor in a favourable position. In fact it would be consistent with human nature to put him at a distinct disadvantage, and as a result the oil that is sold out of Turner Valley to independent purchasers in Western Canada, the sellers are not concerned with what it costs to lay it down, and they are distinctly concerned to make it cost as high as possible, both for their own profit and to prevent undue competition.

"The purchaser of crude oil also finds himself at a considerable disadvantage as field prices for crude have been calculated and set up by the Imperial Oil to provide at Calgary and Regina an average laid down cost."

That has been adduced in the testimony we heard at the early part of the hearing where Mr. McGrath explained they were seeking to establish a laid down cost in Regina and Calgary that would be competitive with Texas and Oklahoma and every other field in the United States.

"To provide at Calgary and Regina an average laid down cost, including transportation, that meets the

international crude competitive situation but works out against him."

That is it works against the small independent refiner that is faced with a competitive refined oil market, which is not really what the crude oil costs, but by the very fact that the freight rates to his refinery are considerable higher than they are to Regina. He is then in a position where he can barely exist and the only way he exists is by cutting his costs and being so much more efficient or not paying his bills, one or the other.

"The independent refiners who, apart from the major companies, are the only possible purchasers of crude, are placed at a serious disadvantave under the above arrangement as they are called upon to pay the posted field price plus pipeline charges plus loading and handling plus a freight rate to their destination that is considerably higher, everything else being equal, than the rate to Regina."

The independent refiner located in Regina is, apart from the disabilities of purchasing oil, crude, in the same position as the Imperial in the matter of laid down costs, and in the matter of competitive conditions. But at Yorkton or Rosetown or Weyburn or any other point where there are independent refineries you will find that the rates per mile are double or more what they are to Regina. In fact for an equal distance, say, let us take the case in point, Saskatoon. At a less distance the rate is considerably higher and by the way the Imperial Oil takes full advantage of the higher freight rates to set their refined marketing price. In other words, the Saskatoon price is the highest price

of any point in the Dominion for gasoline due to the fact the freight rate on crude oil to Saskatoon is abnormally high and it permits of no competition to attack that particular price for refined gasoline.

"This results, for the independent refiner, in a laid down cost for his crude that is higher than the corresponding costs of the Imperial oil, and this device successfully limits the competition that the independent refiners can offer to the major companies outside of Regina. " For these reasons it can fairly be stated that to help equalize the laid down costs of the independent shipper in Western Canada against the shipper to Calgary or Regina, the pipe line rate should be as low as possible and include the service of loading into tank cars."

"With respect to tank trucks, most of the conditions that govern tank cars are applicable to the loading of tank trucks and while it cannot be disputed that the cost of providing this service is somewhat greater than in loading tank cars, public policy, in my estimation, justifies absorbing the extra cost in the general rates."

As the Chairman has pointed out there are other things besides profit, besides right and wrong. There is also the matter of the general good and public policy and that is one of the factors I think that enters into the question of whether the cost should be borne fully, if it is abnormally high, by the people that unfortunately can only purchase in tank truck lots.

"As the Commission will be providing to the pipe line company in the general rate the cost plus a profit of providing tank car, tank truck, and delivery facilities, the pipe line company," - I should correct that and say

"If the Commission provides," - "the pipe line company, as a transportation agent, cannot have any valid objection to this policy." In other words, if it is provided that they are to be reimbursed for their capital expenditures or for the extra expense and it is paid by the public in general, there is no valid reason that the transportation company should have the cost after all, it is paid, and that is probably the most vital point that they are concerned with.

"Regarding the physical equipment required to provide adequate storage and delivery facilities for tank car and tank truck loading, competent evidence is that a week's maximum shipments is the amount of storage that should be provided, and if we take the 1938 shipments as a guide and double them, this should amply care for the requirements of the next few years; and as we have been told 20,000 barrels would be adequate we can take 40,000 barrels as the maximum required."

(Go to Page 6960).

To evaluate the capital outlay necessary for providing these loading facilities; namely, tanks, trackage and loading racks without knowing the peak conditions of delivery is not possible, and I would respectfully suggest to the Commission that in view of the facilities already being in existence, that a rate per barrel be arrived at for loading tank cars and tank trucks, and that this rate adequately reimburse Imperial Oil for the service .

THE CHAIRMAN: This what?

A That this rate be paid to the pipeline company, that the Commission find a reasonable rate that will reimburse the Imperial for the service and that this rate, yes, this rate be paid to the pipeline, the Royalite Pipeline Company because it is included in the rate, the Royalite Pipeline will make arrangements with the Imperial Oil for the use of their facilities or will make arrangements for the Imperial Oil to undertake the loading which will be probably simpler and will get paid the rate that the Commission will set, by the Royalite to the Imperial Oil for the service performed.

And that this be paid by the Royalite pipe line to Imperial Oil out of their general revenue. It would then be the responsibility of the Imperial Oil to adequately provide storage and loading facilities and perform these services.

The Imperial already has its facilities. It does not have 2-10,000 barrel tanks or 30,000 barrel tanks, it has adequate storage to handle all its own storage. It will not now be in the position of taking care of its British American business so it will know it has that surplus

facilities on hand and it can very well make arrangements with the Royalite to undertake the loading of tank cars and tank trucks and under those conditions the cost will be considerably less than if the pipeline is called upon to set up its own delivery facilities and perform that as a separate service due to the factors which have been given attention to before the Commission.

Regarding deliveries to refiners and others through the pipeline in the Calgary area, competent evidence is that it is the universal practice in the U.S.A. for the pipeline company to provide, at their own cost, facilities for delivering the crude oil to the consignee's tanks at no additional charge over the regular pipeline rate and there has been no sound reason developed before this Commission why it should be otherwise in Calgary.

The yard stick that should be used by the pipeline company in deciding whether a delivery connection is justified or not can, for the present, be confined to the case of Lion Refining Company, as in all future delivery connections the parties will be fully aware of the statutory requirements and they will govern themselves accordingly.

As has been pointed out the British American have already made some private agreement that no doubt will be open, will be reviewed by the Commission and it leaves at the present time the only other actual connection to take care of is the Lion Refinery. Now the situation there I can elaborate, and in the case of any future connection, any future refineries or other shippers that would want connections, no doubt the Commission will see fit to lay down conditions or recommend conditions so that the Board of

Public Utilities will be able to pass regulations and a prospective refiner or shipper will know what he has to comply with and will be then in a position to decide whether he wants to comply with them or not and under those conditions I have just submitted, there is one thing though, that I would like to draw the Commission's attention to first, the Chairman has touched on it this morning and that is that it would be well worth while to find a basis, a principle, for the Board or the Commission to be governed by because if it is going to be left to the whim of any one man or two men and if they are not competent to understand not only the question of direct connection but the competitive situation, the relationship between the different companies, it may be that they will be inclined to only look at the surface, whereas if there is a principle enunciated and laid down that principle will govern and in my estimation that is a sound and proper way to illustrate or at least to govern other people by. At the present time practically all matters of this kind are governed by some principle and as a result we know what to expect and a citizen should not be put in the position of being before his judge and not knowing the basis that he is to be judged by, in other words not knowing what the law is and that is the situation that we would be in if there was no principle to govern this matter of connections.

THE CHAIRMAN: Well what do you suggest, Mr. Plotkins.

MR. PLOTKINS: Well I have gone into it a little further, sir, and I will elaborate it.

THE CHAIRMAN: All right.

MR. PLOTKINS:

With the Lion Refining Company case, it is obvious in the light of evidence that in Montana where conditions are akin to ours the Montana Railway Commission tariff provides for deliveries by the pipeline to shippers in their tanks in lots of 500 barrels or more.

It should be obvious that the Lion Company is justified in demanding to be provided with direct crude oil delivery facilities to their refinery tanks. Financial responsibility is not here in question as Imperial Oil and Royalite are both satisfied in this matter, and the volume transported based on present consumption, which is 15,000 barrels per month and is likely to increase considerably, is sufficient to repay the total cost of the complete connection even at the fancy cost figures submitted by Royalite in one month if we apply the whole revenue as was suggested by Mr. Naylor.

Here we have the case, at the present time our shipments are 500 barrels per day, every day. At the 15 cent rate it would amount to $2250, the revenue from one month. Now the additional cost of gauging, because no doubt there will have to be a gauger to make those deliveries, would possibly be $2.50 per thousand barrels; 15,000 barrels would be roughly speaking $45.00. Now outside of that the extra cost of pumping is not to be considered for the reason that it cannot be found because the oil is pushed to the terminal and it will flow to the Lion Refining Company's tanks with less power than it will to the Imperial Oil Refinery because we are located somewhat nearer and in a low site, so the pressure tends to force into our tanks a great deal easier than it will into the Imperial Oil

tanks, so that if the company saw fit to apply all the revenue in one month's time they would have the outlay back and after that it would be whatever profit would normally accrue in the operation.

THE CHAIRMAN: I have difficulty in understanding the reasoning of the witnesses who have spoken upon that subject. After all you say if they see fit to apply the rate applicable to you for a period of time, well does that mean anything more than to say if they see fit to pay the cost themselves because the rate which they would get in respect of you would be the rate with respect to which they would get with regard to everything and the surplus would ordinarily go into their pockets, I mean I have difficulty in appreciating it when you say "Well take mine for the month". I do not know why you should not just as well say "Now if they see fit to take the B. A.'s for half a month they can pay for my line".

MR. PLOTKINS: No, that is different.

THE CHAIRMAN: What is the difference, you are providing more oil presumably to be carried through the line.

MR. PLOTKINS: Yes.

THE CHAIRMAN; But it is all going to Royalite anyway, it doesn't matter at all as to the pipeline utility.

MR. PLOTKINS: Mr. Chairman, you are assuming that it would go to the pipeline but that is not the case. We are in the position to ship otherwise than through the pipeline; in other words if I was faced today with a situation where I had no hope of getting a direct connection I would soon find ways and means of getting my oil to Calgary on a competitive basis, on my own means, and the pipeline would not get that business, so on that assumption if you look at it from that angle, if the pipeline can secure ad-

ditional revenue then they, by applying one or more month's revenue, they can then secure a permanent connection that will give them revenue for years to come----

THE CHAIRMAN: Yes, it should have force with them in leading them to think perhaps it is good business to pay for your lines.

MR. PLOTKINS: Yes.

THE CHAIRMAN: Good business. Now what I cannot see is, if they say "All right we recognize all the advantages of having your business but we don't want it.

MR. PLOTKINS: Of course if they don't want it----

THE CHAIRMAN: Yes "We recognize all you say about getting a permanent connection with us whereby we will get more throughput but we don't want it, we are not satisfied that you will ever give us enough business or it will be profitable enough to pay us or that we are going to have so much trouble over it that it is not worth while", I have the points in view, the one saying that it is not good business for us for any reason you like to think of, and the other of saying that it is good business for them; now when we have come to the point where it is to be recommended that they should be compelled or they should not be compelled, now on what principle do you say that to compel these connections, yes, I follow that reasoning that far, because you say we want equality, but to compel them to spend money to serve you is something I want to understand if I can get to understand it and thus far I do not know on what principle we should say to somebody who thinks it is not good business, "Yes, it is good business, you just take money out of your pocket and spend it for somebody else, that is good business for you so you do it", I want to understand that. It may be that you are wrong or it may be that you are

right, but who are to be the judges that it is good business for them.

MR. PLOTKINS: That is correct, if they are, if they have not what amounts to all practical purpose, a monopoly, if there were two lines or three lines, that is absolutely true because the very competitive situation will eliminate all these problems.

THE CHAIRMAN: You point out they have not a monopoly, you just told me if they didn't serve you, you will find ways and means of getting it up here to compete with them.

MR. PLOTKINS: Yes.

THE CHAIRMAN: So the monopolistic features, if there are any, are not in the way then. I am not talking about whether you should get a connection or should not, that may be the subject of another discussion.

MR. PLOTKINS: Yes.

THE CHAIRMAN: I am talking about-----

MR. PLOTKINS: The principle.

THE CHAIRMAN: Why this Commission should say that we can in good conscience recommend that we go into the pockets of the Imperial to pay for the line to Plotkins, I want to know why we can and on what principle we can do it.

MR. PLOTKINS: I will try and give my views.

THE CHAIRMAN: I can understand that you can say it is good business for the pipeline company to get more business but I do not follow where anybody says that, where the pipeline company says it is not good business, in fact we are told that nobody ever forces them to make a connection. I am not too sure where they improperly or for any reason which seems improper, refuses a connection, that they

should be forced to give it, that is one of the functions of regulatory bodies to see there is no discrimination but to say that they should do it, to provide the service for you out of their pocket is something I would like to be clear on.

MR. PLOTKINS: I quite appreciate that point, Mr. Chairman, and if we apply the ordinary rules of business to this situation and analyze it, we will find that the same principles must govern as already has been pointed out by the two witnesses from the United States; they consider there is enough crude going to go through that line and then they will make the connection, all right, now we will, we will take a given case, a thousand dollars or ten thousand dollars for the connection, the complete cost, and the pipeline will have to manage it or the pipeline will have to ask itself "well now what are the chances of getting back this capital in a reasonable time plus a profit", Now the nature of the oil business in this case where the pipeline is asked to make connections to independent refineries, because I presume there will never be any questions between the companies well then it is obvious by the very nature of the competitive conditions that the independents' refineries business is not stable, we have that as the general knowledge, and as a result of that situation the pipeline could in all justifications say "Well now you are here today but in a year from now or two years from now you may be out of business with the result that if we spend the money and feel that we cannot recover it except in five years' time, except in the case of your refinery, except over a period of five years or ten years, well we do not feel that it is good business for us to put our money in and at the end of one year or two years

before we have recovered our capital and the actual charges you go out of business, that has to be taken into consideration', so therefore it would seem to me that the question of reasonable expectation of business is one of the factors that will have to be taken as a basis; the cost of the line is another factor; the yearly amount from that business at the going rate that can be applied towards the redemption or amortization of that cost is another factor and when we have those three factors and a proper basis for each factor, it can be readily determined in each case, because they will be able to judge the amount of oil which is likely to be carried over a period of time, likely to go through the line, in view of all the circumstances, they will be able to find out definitely what the cost of the pipeline, the service line will be. They know what portion of the rate they can apply towards amortizing that investment and as a result of that they will be in a position to decide, if they want to make it without any question or if they want to set conditions, now if they feel that the chances are, the probabilities are, that the refinery is not likely to stay in business or that the volume is not likely to continue sufficiently long to bring about the conditions that they have visualized for themselves, then they will ask the refiner to make an agreement based on the same factors that they would work on themselves, to either put up the money, to put up the money for that line and be reimbursed on the same basis as they would reimburse themselves; in that manner there would be no financial risk of any magnitude involved because, there would be the risk that there would be no business, but the unknown factors would be reduced to a basis and we would have some principle that anyone could

understand and translate into facts to be governed by. Now I am pointing out in the case of the Lion Refining Company----

THE CHAIRMAN: Your principle, as I understand it is- that whenever it is good business for the pipeline corporation or corporations to make the connection they should be forced to do so.

MR. PLOTKINS: If there are no others, now when you say "good business"----

THE CHAIRMAN: Good business for them.

MR. PLOTKINS: You have to take more than that into consideration; for instance as you pointed out a few moments ago, they may have trouble with that utility, they may not want to do business with them, they are not in a position to do a clean-cut business and for that reason , apart from all other considerations, they may ask the Board or the Commission that controls it, to set conditions over and above the ordinary condition. In our case that is not the fact because we have had no trouble in connection with paying or delivery or relations. They have been most pleasant, so I want to point that out from the operating standpoint, there is no trouble, so it is a matter of principle, in other words the competitive factor which is not handled by the local officials is the trouble, so I want it to be understood that our relations with all officials and all operating companies are absolutely cordial and very pleasant because under those conditions the work can be done better and we have no complaint, as I pointed out earlier in my submissions, as far as the conditions that govern our relations in the matter of working out deliveries or purchases or anything of that kind, so that apart from the facts, which I have stated, there are various

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The Chairman: [illegible] for them.

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[illegible] [illegible] operating companies are [illegible] [illegible]
[illegible] very pleasant [illegible] under these circumstances the [illegible]
[illegible] [illegible] either and we have no complaint, [illegible] I [illegible]
[illegible] [illegible] in my submissions, as far as the [illegible]
[illegible] [illegible] our relations in the matter [illegible] working out
[illegible] or [illegible] [illegible] of that kind, or that
[illegible] [illegible], [illegible] [illegible] stated, [illegible] [illegible] [illegible].

considerations and one of them is this question of comparability in business, we find it sometimes necessary to refuse to do business with someone, why, because the bother or the trouble is more than what profit or even apart from profit, at any profit or at any amount of money, that there are times we refuse to do business with certain people or with certain organizations so that the pipeline can use that as a justification but I would think that that would also be subject to review by a competent body.

THE CHAIRMAN: They are common carriers now.

MR. PLOTKINS: Common carriers.

THE CHAIRMAN: They have to take what is offered to carriers.

MR. PLOTKINS: Yes, but the pipeline company is not in the same condition as a railway, they have a schedule and they can compel payments.

THE CHAIRMAN: Yes, they are as much common carriers as the railways right this minute.

MR. PLOTKINS: Yes, I may be wrong in that aspect because after all they are in the position of compelling payments, they hold the oil as payment and that is not a question then of credit where they have no security so possibly from every standpoint they are able to enforce conditions that the law governs, that they are goverend by, so that if the basis I have taken, I have enumerated, commends itself to you it is the ordinary basis of any investment we make in the oil business; for instance if I have in mind to build a distributing station, the same principle, the same basis that I have stated governs our business and I cannot see any others that are fundamental, that would be necessary in order to lay down a rule and de-

termine the basis that the pipeline should make these connections on.

THE CHAIRMAN: Supposing it were thought to be good business for the utility to buy expensive racks and tanks for the loading of tank cars and tank trucks, do you think as a refiner who has no interest in that except in your own yard, should pay for them.

MR. PLOTKINS: Expensive ones.

THE CHAIRMAN: In the rate.

MR. PLOTKINS: Well why do you say "expensive ones".

THE CHAIRMAN: I was assuming it is good business to do that, I did use the word "expensive", and I think it is all right to continue to use it, providing it is good business, then expensive ones will be cheaper than cheap ones.

MR. PLOTKINS: Possibly.

THE CHAIRMAN: I am assuming that it is good business to expend considerable sums of money in respect of the loading of tank trucks, do you think you should pay for that.

A Well now I will say this, that if arrangements with the Imperial Oil can be made whereby the cost to the Royalite Oil Company, the Royalite Pipeline Company would not exceed 2½ cents, the total cost of loading all the tank cars that we can visualize at the present time, it would not be sufficient to effect the rate sufficiently for me to be interested and as a matter of general policy I would be willing to contribute my share towards the widening the market so as to reduce costs.

THE CHAIRMAN: That is to say that you think these charges 2½ or whatever it may be should go into the general rate?

MR. PLOTKINS: Yes, because I do not think they will

affect the rate very materially.

THE CHAIRMAN: What I was leading up to was, I was wondering whether you should pay that since you suggest that the rate be set, that the utility reimburse itself for putting down the line for you out of the rate.

MR. PLOTKINS: Yes.

THE CHAIRMAN: If they do that either they are taking it out of their own pockets and making you a gift of the connection or it is provided for in the rate, so that you will get it, and if it is the alternative, then those who pay the carrier's charges are being charged, are ultimately paying for your connections.

MR. PLOTKINS: That is true, sir, providing I do not.

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MR. PLOTKINS: That is true, Sir, provided I do not ship enough oil through that connection.

THE CHAIRMAN: They are still paying for your connection but they are getting the benefit of your trade?

MR. PLOTKINS: Yes, so that the other shippers are not penalized.

THE CHAIRMAN: They are paying that rate too that you are paying. You see, we will say there are six people using the line. You are one of them. All right, you want a connection.

MR. PLOTKINS: Yes, Sir.

THE CHAIRMAN: At least you are a proposed user of the line. There are five people using the line. You say you want a connection, and that will make six. You say "Because I am buying oil which I would otherwise bring here by truck or some other way, and you are going to get some more business through this pipeline, so I want a proportion of what I pay. I may pay the same as the other five but I want a proportion given back to me till my line is fully paid for." All those other men are paying the same rate as you are. The utility does not care very much. One can, perhaps, understand their casualness because they hope to get it out of the rate. But the people who are paying that rate, who ultimately provide the money, they are buying your line. They do not care tuppence about your line, presumably. But you say you have provided additional throughput which, if it were great enough, would have a counter-balancing effect in their carrying more oil, so it

should have the effect of reducing the rate.

MR. PLOTKINS: Yes, Sir.

THE CHAIRMAN: The volume of your oil would effect, or should effect, a reduction in the rate?

MR. PLOTKINS: All I can say is the other five, if the pipeline company paid for the service line and the rate had provided for that connection, in my case it would be exactly the same. We will have paid to the Imperial Oil a rate that would of necessity provide for the full trunkline of the Royalite Oil Company. The terminus of that trunkline is right in the yards of the Imperial Oil. If, on the other hand, the Royalite Pipeline reimburses the B. A. for the line they have now constructed at their expense the B. A. will be in the same position as the Imperial. In both cases the rate will have paid for these connections. It is true that they have not paid for it out of revenue at so much a barrel because, apparently, there will be no question, or at least there was no question in the case of the Imperial; in the case of B. A. I do not know what the situation was. But assuming that the pipeline sees fit or that the Board orders that that payment be made by the Royalite Oil Company to the British American the position will be exactly the same as in our case, if I ask for the same privilege, if I am able to comply with the same conditions.

Now, there is another factor I want to point out. The utility is concerned with business because we have to-day---I can point to

a good illustration. Only yesterday there were no competitive factors entering into the picture. The Royalite was assured that there was no source of supply of crude oil of any consequence and they could very nicely sit back and say "Well, you have to come to us." But if this new field develops crude oil in sufficient quantity and I am able to choose, because with the knowledge of the business I have the Steveville Oil will have to be laid down in Calgary in competition with Turner Valley, and as a result there will be no pipeline, because the field is located practically on the railroad, two miles from it, and it means there will only be gathering lines. As a result, when I go to the Royalite's pipeline company a year from now the situation will be considered different. So that if we look at it from that angle, and that is the way we now in the oil business must look at the picture, then the situation is not that the utility does not care. Because it must safeguard its investment and the only way it can safeguard it is by continuing to obtain patronage from shippers.

"If we take into consideration a further fact that we ourselves only produce 150 barrels daily and purchase from Imperial Oil 350 barrels daily, on which the Royalite makes a production profit, there is no valid reason why we should not be given direct delivery facilities."

I have pointed that out

previously in my testimony, that it is not strictly a transportation matter in the case of the Royalite, where they are also producers of crude oil, and while the Commission can divorce the functions the company will not divorce in their own minds the matter of production from transportation. So if I am able to buy crude in Steveville that has been produced by someone else and that they lose both the production profit and the transportation profit, they will be more amenable to giving a pipeline connection without quibbling than they would otherwise. So that is about the position we find ourselves in.

THE CHAIRMAN: What do you say the capital investment is again? I know you have spoken about it before but would you mind putting it in again in a word? What do you say is necessary in the way of capital investment to provide you with the connection you want? I mean on the evidence. I do not recall what the evidence was?

MR. PLOTKINS: No, I do not recall what the evidence was, but I have in mind, roughly, I will do a little figuring and I think I can give it to you.

THE CHAIRMAN: You gave evidence on that, and so did Mr. Coultis.

MR. PLOTKINS: I do not recall the figures.

THE CHAIRMAN: Oh, well, do not bother, we will find it.

MR. PLOTKINS: It is not very great, considering the volume that we move, and the distance is comparatively short, 1750 feet, as feeder lines go.

MR. COMMISSIONER LIPSETT: I think, Mr. Plotkins,

Mr. Coultis' figure was $700.00 for the connection at the pipeline, and between $1500.00 and $1700.00 for the connection to you, which, I gathered, might be increased in some circumstances to $2,000.00. That is right up to your tanks. I do not know whether you gave a different figure or not, did you?

MR. PLOTKINS: Yes, I would be prepared to put in our own pipeline under the direction of Mr. Coultis' engineers or his own personal direction, and subject to his specifications, and conditions, insofar as the pipeline connection is concerned. That is not the connection at the trunkline. I would do that for 45 cents a foot.

THE CHAIRMAN: 1700 feet?

MR. PLOTKINS: Yes. $850.00 to $900.00, roughly speaking.

THE CHAIRMAN: Mr. Erawley, I think we will take a short rest before we hear you, we will resume at a quarter to five.

MR. FRAWLEY: Mr. Chairman and Mr. Commissioner. I presume that what Mr. Nolan calls the high-lights of this part of our Enquiry are the loading, terminal loading rate, storing and loading rates, and the rather troublesome question of the service lines into refineries. Now, dealing first with the question of what evidence has been submitted to the Commission to enable them to arrive at a fair rate to be recommended for loading into tank cars and tank trucks. The evidence is not particularly satisfactory about that, and without being unduly critical I simply say that there has been no opportunity

by either the accountant retained by myself, or by Mr. Cottle, to examine as closely into the costs, both capital and operating, involved in the loading facilities, as there was in connection with the main pipeline matter. It is obvious that we will have to do the best we can about that although it must drive the Commission to act on the evidence of the meh who came from the United States and follow their suggestion as to what a fair rate should be and recommend accordingly.

However, I have gone to some pains to prepare a statement, and there being no time to put it in statement form I will read it into the record, what the rate would work out at on the rate-base method, assuming we were endeavouring to work out a miniature rate, that is on the loading facilities, and using the figures as we have, and virtually accepting them in a very large part. Now, I find, therefore, that the capital for the tank car loading - I am going to divide it into tank car loading and tank truck loading, the investment, looking at Exhibit "244". The capital investment is $42,824.68. Now, when it comes to depreciation there is a departure there, because I am going to adhere to my submission that the depreciation should have some regard to the life of the field and, therefore, in this calculation I am putting down the depreciation as $2,250.00, depreciation or amortization, using the lifetime of 19 years. For taxes I am taking the same figure, $214.12, as in the Exhibit. Then lumping all

the direct costs - not because I am approving of them all, but that is the only evidence that the Commission has - I am taking all Mr. Moore's direct costs, $37,846.41. Now, I am putting down a return. I am not using the basis that Mr. Moore arrived at of operating costs and then adding in enough to bring it up to the 2 cents. I am allowing a rate of return on the investment of 10% and, therefore, that item, as an expense, is $4,282.46. That makes a total expense of all kinds of $44,592.99.

MR. COMMISSIONER LIPSETT: Will you repeat that?

MR. FRAWLEY: $44,592.99. Then, taking the total of the deliveries by tank cars in 1938, both the Imperial Oil's own business and what they loaded for independents, as three million, and it is almost three million, as shown by Exhibit "242", it is actually 2,923,885 barrels. And using the same method as we used in the earlier part of this Inquiry, and for the purposes of my submission duplicating the 1938 experience, I divide the 3 million barrels into $44,592.99, and I arrive at a rate per barrel of 1.48 cents. Now, 1.48 cents is the cost exclusive of storage and losses. Losses, I am taking as .58 cents, because, using Mr. Moore's figure of .4848% on the sale price, that is on a $1.20 refinery run of crude, I add this .58 cents and that gives me 2.06 cents per barrel. That is the cost exclusive of storage. Now, to deal with storage. We will assume 125,000 barrels of storage as being sufficient for all loading purposes, and going again to Exhibit "242" we find that the loading was, the biggest loading month in 1938 was 417,379 barrels.

That was in the month of September. Therefore, to endeavour to provide adequate storage to look after the peak months, for all purposes, Regina, Imperial Regina, B. A. and independents, and that is taking the company's own figure of $35,000.00 per annum rental for what they had to pay for 200,000 barrels, just a few barrels more than 200,000 barrels, then the sum of $21,750.00 should take care of 125,000 barrels of storage, which I am suggesting should be sufficient to look after all of the loading, both for the Imperial and for the independents. That gives me a figure of .725 cents per barrel for storage alone. .725 cents per barrel. I add that to the 2.06 cents, and I get 2.78 cents per barrel. That then is the figure which should be the cost plus a profit of 10% to load out tank cars and to take care of the storage requisite therefor. Then I come to tank trucks-----

MR. COMMISSIONER LIPSETT: Mr. Frawley, may I interrupt? Was that storage based on 7 day storage or on a month's storage?

MR. FRAWLEY: That was on a month's. No, it is a week. It is 7 days. We took the biggest month, really, and then we brought it down to 7 days. Surely.

Then I come to tank trucks and I want to call your attention-----

THE CHAIRMAN: And amortized, Mr. Frawley?

MR. FRAWLEY: Amortized. No, we did not do it on the amortization basis. That is using their rental basis. So it is a sort of a service charge, and that includes the use of the utilities and everything

else, heating and everything else in connection with that. Then I want to call your attention to the fact in allowing for that storage of 125,000 barrels we have already heard in evidence here that you should add 20% for effective purposes.

Then taking tank trucks and using Exhibit "245", not being able to deviate very much from that, i the same way the capital is $6,114.00. Now, expenses. The first expense is the amortization rate, and I am using the same 19 years that I submitted earlier, $322.00, and the taxes, $50.00, as shown on the Exhibit. Direct costs, $1550.00. That is 4.24 cents, multiplied by 46,500 barrels, which, according to Exhibit "245", is what they expect to load out in tank trucks at the rate of 100 barrels per day. The next and last item of expense is return on the investment, and that, at 10%, is $611.40, which makes a total expense of $2,533.40. Dividing that by the amount, by the barrels, 36,500, we get a figure of 6.96 cents per barrel, which is exclusive of losses. We add the loss, .58 cents per barrel, and we arrive at a figure of 7.54 cents per barrel. There is no allowance in there for storage, because it does not appear from the Exhibit "245" that there is any need for it, in any event.

Now, then, on the assumption that the Commission should desire to make an inclusive rate, as has been submitted to them, this afternoon, certainly by Mr. Plotkins, in any event, now to have

an all-inclusive rate to cover gathering, transporting and delivering, both to refineries, tank cars and tank trucks, then we would multiply by 3 million the number of cents per barrel that it takes to deliver into tank cars. In other words, I said 2.78 cents. Multiply that by 3 million and we arrive at the sum of $84,000.00. That will provide sufficient money to permit the company to make in 1939 complete deliveries into tank cars. So we have $84,000.00. Then we go to tank trucks, and you will find the cost is 7.5 cents, and 46,500 barrels are to be loaded.

MR. NOLAN: 7. what?

MR. FRAWLEY: 7.5 cents. We find $2,750.00 provides the money to load into tank trucks. We add these two costs together, $84,000.00 and $2,750.00, and we get $86,750.00.

(Page 6983 follows.)

Now that is the total cost of loading tank cars and tank trucks, including storage and losses, that is the complete figure. Now we divide that, now on the assumption that we want to find the all-inclusive rate we divide that by 6,000,000 barrels, being the throughput in 1938, which as I have said I am taking into 1939, we divide that by 6,000,000 and we arrive at a rate of $1.44 per barrel and that is to be added to the X cents which the Commission will find to be the rate for gathering and transporting so that at least now, assuming that the Commission is satisfied with that kind of a calculation, with the infirmities which I point out as I go along, chiefly that there has been no opportunity to examine these costs and a certain amount of estimating has to be done, just fulfilling what I regard to be my duty in putting before the Commission everything which is in the evidence after a fashion and feeling the Commission in my submission will want to use it and deal with it, we find that there must be added to the rate, to the pipeline rate with which wewere concerning ourselves before the 1st of April, a sum of $1.44, and that whatever it will result in is enough to gather the oil, transport it into, to the end of the line in Calgary and put it into the refinery tankage, put it into tank cars and put it into tank trucks; in other words that is the rate which Mr. Plotkins advocated today.

Now there is another way of doing it alternatively and it works out to a little bit less and I want to give that to the Commission; take the 2½ cents which the witnesses say is a fair charge to load both into tank cars and tank trucks, because at least Mr. Hull said that he would not add anything to his 2½ cents for tank truck purposes

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and you will find that, Mr. Chairman, in Volume 55, at page 6751, where in answer to your own question he said that he did not intend to add anything to the 2½ cents; there was a small additional cost but it would not result in there being any necessity to add anything to the rate; now then let us take 2½ cents then and let us add together what they load into cars and load into trucks, that is just adding the 3,000,000 to the 36,500 and we have 3,036,500 barrels; that means that the sum of $75,912.50 will supply the money to do that; take the $75,912.50, dividing that by 6,000,000 and we have something a little less, we have $1.26, $1.26, actually $1.2652, that then is the figure of that basis which has to be added to the X cents that has been or will be determined as the pipeline rate otherwise. Now then that is, if we want the all-inclusive charge, I will have something to say in my submission, whether there should be a separate charge and some things seem to be for and against it, but in any event that is what the Commission is faced with if they desire the all-inclusive charge; now then on the rate base method, to arrive at separate charges, assuming now we abandon the advisability of an all-inclusive charge and we want, we set out to find what a separate charge will be, well of course that is a very simple thing, we have, on the rate base method, we have just to take two exhibits, to take Exhibits"244" and "245" and probably, using a depreciation figure which I suggest, it is very small in decimal points, but using the 19 years' depreciation rather than the annual depreciation in the Exhibit "245", we have a tank car rate of 2.78; a separate tank car rate of $2.78 and again using

making a slight alteration in the Exhibit "245" we have 7.54 cents, practically the same as the company's submission, 7.54 cents as a separate charge for loading into tank trucks. Now I may say at once that of course does not commend itself to me at all as being what the Commission should accept. I say first of all that the truck costs are particularly unreliable because all the company says is based on 1938. It is not even an itemization of what the cost would be but they have it worked out at 4.24 cents per barrel as shown in Exhibit "245", as to what their costs would be based on 1938 and in 1938 they had no truck movement at all and I say for that reason chiefly these figures are not reliable and in any event I want to point out that neither myself nor anyone else has had the slightest opportunity of inquiring into these costs in any fashion whatever, so I go from the separate charge on the rate base method-----

THE CHAIRMAN: Because those who made the tabulations were not here to explain or verify them.

MR. FRAWLEY: Yes, I should add that to it, because after all Mr. Nolan put in Mr. Moore who had to admit, I think twice, that they were not his figures, he prepared something and sent it down to Toronto but the Exhibits "244" and "245" were Toronto statements, so I am certainly going to abandon the rates which emerge from the two Exhibits "244" and "245" and I am going to rely frankly on the evidence of Mr. Hull, who certainly is a pipeline expert if ever one came into this witness box, because he certainly moves a lot of oil in his jurisdiction and he says 2½ cents is the going-rate; in other words he says, having in mind not altogether what the cost is but having in mind what the public should pay where he operates,

having that in mind for that kind of operation that we are talking about here, it is 2½ cents so I am going to take 2½ cents and I am also taking Mr. Hull's submission, evidence, that he is not thinking of adding anything to the rate when he asks for, when he said that it might cost a little bit more, the Chairman at page 6751 said:

"I do not understand him to say he would add anything. He said the operation would be more expensive but that when it got down to putting any figure, as I gather, it was a negligible thing and that therefore because of that the practice was to cover all these kinds of vessels with the 2½ cent rate. I may be wrong in saying that".

A That is correct, sir."

MAJOR LIPSETT: What page is that?

MR. FRAWLEY: That is page 6751, in Volume 55. Mr. Naylor, of course, I want to point out Mr. Naylor said 2½ cents and then doubled it, but he frankly, in fairness to Mr. Naylor he when pressed, hardly pressed even, he said "Well that was just a guess", so now Mr. Chairman, that is all that can be said from the evidence with respect to this loading charge.

THE CHAIRMAN: You say that for the performance of the terminal service, having regard, having consideration to nothing being added to the rate base or nothing else, there should be a service rate allowed for the service of 2½ cents a barrel.

MR. FRAWLEY: 2½ cents per barrel. Now that is on the assumption, and that is the figure which I submit should be charged, if there are to be separate charges. If they are to be all-inclusive that 2½ cents, in the very fashion I have

shown you, goes right down to 1.25 cents, 1 1/4 cents, if it becomes all-inclusive; perhaps this is the way to put it, if you rule out the all-inclusive rate, then Mr. Hull's 2½ cents becomes 1 1/4 cents; now that is precisely what happened, because of course the volume is twice, everybody is paying for it, if it is the all-inclusive rate every barrel that goes through the system pays its portion of this loading rate;

Now should there be a separate rate or should there be an all-inclusive rate? Well it is pretty difficult to make up one's mind about that but it does seem to me that the inequalities are points to be considered and it may be preferable to name two rates. After all I find it difficult to understand why,-notwithstanding what Mr. Plotkins had to say today,-I find it difficult to know why, if Mr. Harvie's company wants to load, wants to go into the business of loading cars for its refinery in Moose Jaw, even although it is not on a cost basis , why they should pay cost plus something else to the Imperial Oil Company to have them do that work for them. Now I find that difficult, it is quite true they can, it is not a physical impossible operation at all. Mr. Harvie wants certain cars sent down to Moose Jaw, he orders the Imperial Oil Company,-because let me stop now and say that insofar as I am concerned, Mr. Chairman, I have no misgivings at all, I may be quite wrong but in my submission the statute, Chapter 4 of 1939, fully and completely implements the recommendations of this Commission and make the loading assets of the Imperial Oil Company, Limited, common carriers and public utilities just as much as it made the pipeline, the trunk pipeline of the Royalite Oil Company, so I say that it is true that Mr.

Harvie's Company can order the common carrier and public utility, the Imperial Oils, Limited, Loading Department, to load his cars for Moose Jaw but I find it difficult too, that is to satisfy myself that it is fair and just that he should have that business taken away from him. He can operate his business, after all it is the business of refining and of selling crude oil, it has not lost its character as a private business,and there may be reasons, I cannot think of any now, why Mr. Harvie might want to keep that knowledge to himself, he is a competitor, he is a competitor, and Mr. Harvie may have reasons for not letting the Imperial know how many cars he sent down. I quite agree they handled all last year; when he shipped a car, he was in that position, that he had to give, he even had to have his gasoline made by the Imperial Oil but now he is on his own and it may be that it is not right, and unless there is some advantage, that of course is not a terribly important matter, but if there were advantages in favour of the all-inclusive rate,-Now Mr. Plotkins pointed out one today and I was very interested in hearing Mr. Plotkins' observations because one would suppose he would have the same interest as Mr. Harvie but he says "I am willing to forego what benefits I might get from that, I have the loading facilities there, I need them for my white products to load them and I might as well use them for loading crude oil", and I understand Mr. Plotkins intends to stay in the business of jobbing crude oil, but he is not going to be able to load them, because he is willing to let that go to the utilities and he says there is some advantage in the extension of the market, that is something which might be worth considering, I do not know how you will translate that into extra barrels of crude it

would push through the line but I quite agree, quite agree, that if that loading charge is left to the utility and the business is kept there, it might have the result of offsetting in some slight degree those very troublesome freight rates that these refiners in Saskatchewan have to pay,- I do not care so much about the Saskatchewan refineries except as potential purchasers of Turner Valley crude, then of course they are of interest to us,-frankly I am just a little afraid I am not going to be of very, very much assistance in my submission as to the all-inclusive rate as against a separate rate but I certainly I see some inequalities there. Now the advantages are to put a small refinery, Mr. Munroe for instance, as much on an equal basis with the British American and the Imperial and the Lion as we can; well it probably helps him out some,it is true, but he still has to stand the 9 cents I understand to get it up the hill to where his refinery is, he still has to stand 9 cents, which is 5 times what we are talking about, so he is at that disadvantage, which we cannot do anything about. I guess it gets down to an investment proposition. There is the theory of rent, that the further out a man is from market the less rent he should pay because he has other costs which go to increase his total cost. The theory is that he should pay less rent on the theory that he had it made up to him in having lower costs otherwise, and perhaps there is something in this, after all the Munroe Refinery is not within the Calgary refinery area, it is not 200 yards from the pipeline as Mr. Plotkins is, it is not even 2 miles as Mr. Harvie's is, he is some 5 or 6 miles away, as I remember the evidence, some distance away anyway, so I do not know, anxious as the Commission may be to put people on an equality, I do not think that can be at the expense of being unfair or interfering unduly with the legitimate

business of other companies, as it does seem to me it might have that effect in the case of the British American or the Imperial.

Now that leaves only a discussion of the question of the, yes, it is true, of course Mr. Chairman, I should point out that I am assuming that the Commission accept the very definite evidence of Mr. Hull and Mr. Naylor that there may be no terminal storage operating on this pipeline company in, such terminal storage as might, if it were justified, find its way into the pipeline rate. That does seem now, after many weeks of inquiry, to have definitely eliminated itself if we accept the evidence of Mr. Hull and Mr. Naylor. Now while I want to associate myself with everything that Mr. Nolan says about the manager of the pipeline company, Mr. Coultis, yet Mr. Hull, I think we must give a great deal of weight to what Mr. Hull said in the witness box because he has had a world of experience in this very kind of thing, what the practice is and not what the cost might be but the other consideration, what the fair charge to the public should be, which in my submission is what this Commission must keep pretty constantly in mind, therefore I say on the basis of that evidence there need be nothing put in the pipeline rate for terminal storage. That I think can now be eliminated, that there need not be anything put in the pipeline rate as such for the operation of terminal storage, just such storage as is required to fill tank cars and tank trucks and I have just completed dealing with that.

THE CHAIRMAN: Or terminal losses or terminal storage or anything else.

MR. FRAWLEY: Yes, as distinct from----

THE CHAIRMAN: Your submission is this, that the service is worth 2½ cents and that is all the utility can get.

MR. FRAWLEY: Yes.

THE CHAIRMAN: If it suffers either capital or operating losses that is just too bad.

MR. FRAWLEY: Yes, 2½ cents.

THE CHAIRMAN: They having had the opportunity of showing what the proper rate base should be and what the proper rate structure should be and what the proper service rate based thereon should be.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And not having taken the opportunity of that, not having taken advantage of that opportunity, as they might have done, you say it is the proper way to approach it.

MR. FRAWLEY: That is my submission entirely.

MR. NOLAN: That opportunity also was open to the Commission Counsel.

THE CHAIRMAN: Quite so.

MAJOR LIPSETT: Mr. Frawley, just before you pass from that, that one point Mr. Nolan made, that you might like to refer to and that was, I will put it to you this way, assuming for the moment that the 2½ cent rate, it might be said if they did the whole business, the 3,000,000 barrels and the 36,000 barrels.

MR. FRAWLEY: Yes.

MAJOR LIPSETT: But if it was put separately, it might well be that if, they get 1/3 of the business, the B. A. got 1/3 of the business and the Lion Refinery 1/3 of the business what position would you then take with reference to the Imperial which is a public utility and must have its facil-

ities and must do the work.

MR. FRAWLEY: Yes, I was not unmindful of that and I intend to deal with that; as I recall, the Chairman made a very good answer to me when he called attention to the fact that, when we were dealing with the pipeline as such, we found that the pipeline division availed itself of the benefit of the blacksmith shop for instance, and that the pipeline division got the benefit of the low cost of operating the blacksmith shop because it was used jointly by the crude oil department and all the other various departments of the Royalite; now if for that reason, simiarly with the Imperial Oil, if it used its own loading facilities for itself and for the public, it seems to me it is not unfair that the public should obtain from the Imperial, as a public utility, qua loading as a public utility, that the public should be entitled to ask of the Imperial and to obtain from the Imperial the benefit of the very cheap cost which arises out of the fact that it does a big business for itself. I see nothing inherently unfair about that, any more than giving advantage to the crude in the Royalite Pipeline Division a benefit because of the fact that the utilities are used jointly.

MAJOR LIPSETT: Does that quite cover the point.

MR. FRAWLEY: Perhaps not.

MAJOR LIPSETT: You have all the benefit of these utilities on the present basis.

MR. FRAWLEY: Yes.

MAJOR LIPSETT: Now if that is cut down to 1,000,000 barrels a day, and the other two ship the other barrels?

MR. FRAWLEY: Yes.

MAJOR LIPSETT: Would there not be some difference in the figure.

MR. FRAWLEY: I see what you mean, I certainly agree with Mr. Nolan's suggestion and I have no other position to take before the Commission but that Mr. Plotkins' service line, when he gets it, Mr. Harvie's service line, Mr. Harvie's loading racks, are pipelines within the meaning of this new statute.

THE CHAIRMAN: Whether or not, whether they are or not, is it not a necessary sequence of your first submission that this is the proper rate for the public to pay, if ten people go into the business and do it, still the public should not pay anything more.

MR. FRAWLEY: Mr. Harvie will just charge 2½ cents.

THE CHAIRMAN: If he charges any more, so far as the public is concerned he will not get anything.

MR. FRAWLEY: No, even assuming he is not a public utility.

THE CHAIRMAN: If he charges 2 cents, then it would be good business for the Imperial to reduce theirs to 2 cents and they will likely do it.

MR. FRAWLEY: That is the answer we get.

THE CHAIRMAN: No matter how many people or how few are in the business. If we are driven to say on the evidence we are going to determine what is the fair service charge, what does it matter how many are in it, because it is the service charge to the public.

MR. FRAWLEY: I cannot put it any stronger than this, instead of having the Exhibit "244" if Mr. McGrath was here with all his costs and extended out in great detail and we then determined that Mr. McGrath needed not 2 cents but say 3½ cents, that he had an excellent system, as you said a moment ago, too expensive tanks, everything too expensive,

nevertheless the actual cost and on that resulting cost, even on a 10% basis, he needed 3½ cents, would the Commission give him 3½ cents in the light of the evidence given here today? We have two things, one, what does it cost, but that is not the all and end all, after we get the 3½ cents, is there something less that the public should pay.

THE CHAIRMAN: We should then be concerned as every rate making body is, of being fair to the public on the one hand and putting into effect a fair rate on the other hand and to provide a fair return on the capital that they have in the public service.

MAJOR LIPSETT: I suppose, Mr. Frawley, following that up, there might be an answer even to the way I put it to you, to this effect that if the 2½ cents that you assume was taken as a fair rate to the public and as the rate that was made on the basis of 3,000,000 barrels---

MR. FRAWLEY: Yes.

MAJOR LIPSETT: That the other two might not go into the business if they couldn't make a profit.

MR. FRAWLEY: That is true, it might work itself out that way, but I think the most complete answer is that we must always keep in mind that this utility must get, regardless of its cost, must get no more than what the public should fairly and reasonably pay.

Now that leaves me only to deal with one more matter and it is a troublesome one, and that is about who pays the service line, Mr. Harvie or Mr. Nolan. Well I think we must divide it into two, we must put it into two aspects, one where the pipeline company itself thinks it is good business and where the pipeline thinks it is not good business.

Now where the pipeline thinks it is good business, then the pipeline puts it in at its own expense. Now let me deal with the matter that Mr. Nolan said I was going to deal with so glibly, it is good business, and the pipeline builds the line and I say that they get it out of the rate. Now what do I mean when I say that, and this is all I mean, months ago, it seems years ago, we talked about Mr. Coultis and his gathering lines which he must build in 1939 and in 1940 and in 1941, and we said it was not enough to have in mind what Mr. Coultis had invested as at the end of 1938, which is all we had as our so-called rate base, but we had to project ourselves into the future, and say "What is he going to have to spend for gathering lines", let us stick to this for the moment, he certainly is going to build them in 1939, he was building them as we were sitting here and he is building them every day, these gathering lines, and may I pause to say that there does not seem to be any backwardness or shyness on Mr. Coultis' part of going out and gathering in these lines, not the same sort of shyness that he has in putting in a line to Mr. Plotkins' plant, well what those causes are, I do not know.

MR. NOLAN: I will tell you if you want them.

MR. FRAWLEY: Well I have a faint suspicion that perhaps competition might enter into it, without being so sinister as Mr. Plotkins is, because when he goes out to get the wells you see he gets crude oil for Imperial Oil, let us not fail to note that, he gets crude oil for Imperial Oil, but when he puts crude oil into Mr. Plotkins' refinery he is supplying the sinews of war for a competing market. I can see too, when we regard the whole thing as one organization, and Mr. Coultis wants to put in a gathering line, I thought we had settled all that in our minds as to how that was to

[illegible]

[illegible] Holden

[illegible] good bus-

[illegible] they

[illegible] I say that

[illegible] it [illegible] years ago, we

[illegible] quickly and [illegible] lines which be

[illegible] in 1944 and in 1945 [illegible] 1944, and we said it

[illegible] enough to have in mind [illegible] Corinth and turned so

[illegible] the end of 1948, which [illegible] we had to [illegible] so-called

[illegible] the lease, but we had to preclude [illegible] the [illegible]

[illegible] "Under [illegible] to [illegible]

[illegible] left to [illegible]

[illegible] to [illegible]

[illegible] anything [illegible] even [illegible]

[illegible]

[illegible]

[illegible]

Mr. [illegible]:

[illegible]

be provided for, I think, I do not know what the Commission has done at all of course or whether that has to be done yet, but there should be, in my submission, some money in there, some money, $200,000, $100,000, and that gives Mr. Coultis some money, and when I say $200,000, I mean that the rate gives it to him, the rate which is fixed, the X cents, gives him $100,000 or $200,000 for what, to put in gathering lines or ten new gathering lines, and I say by the same kind of reasoning, to put in service lines and two service lines and three or four, if it is good business, that he should put them in and I presume he will not put them in unless it is good business. Now that takes care of the good business aspect of it. Mr. Coultis comes along and sees a good connection, Mr. Harvie, to be exact, and he puts in that line and there should be something in the general rate, the expense, to enable him to put that in just as yesterday he probably put in a line to the Home-Millarville No. 84 or whatever you want to say; now that is what I mean and what Mr. Nolan, with great respect, was trying to put to the Commission when he said it should be in his rate base. Let us put ourselves back twelve months and we find that at that time the lines were built, the lines were built, to be consistent I had better put myself forward twelve months, at some stage we find the lines are behind us, the lines are behind us, they are built and they are there and then when Mr. Morrison was making his rate base, and Mr. Maw, they would begin there and that Mr. his name, from Long Island, Mr. Hill, was making his valuation they would be in there and that is all there would be to that and Mr. Coultis would get a rate of return on that; they would be accomplished facts but they are not in and we still have to deal with them as capital additions, that is the term we use. The Gas Company has a new consumer on the

e provided i.e. I think, ... are very .... of Louisiana
has done it all of course or whether that has to be done yet,
but there should be, in my submission, some money in there,
some money, $20,000, $100,000, and then give Mr. Conklin
some money, and when I say $100,000, I mean that the rate
given to him, the rate which is fixed, the X cents,
give him $100,000 or $200,000 for what, to put in
something like or ten new satellite lines, and I say by
the same kind of reasoning, to put in service lines and
two service lines and three or four, if it is a good business,
then he should put them in and I presume he will not put them
in unless it is good business. Now that takes care of the
good business aspect of it. Mr. Conklin comes along and
a good connection, Mr. Harvie, to be exact, can he put in
that line or there should be something in the general rate,
the expense, to enable him to put that in just on yesterday
he probably put in a line to the Monmouth-Carrville No. 4 or
whatever you want to say; now that is what I mean and what
Mr. Lilan, with me at request, was trying to put to the Com-
mission when he said it should be in his rate base. Let us
put ourselves back twelve months and we find that at that time
the lines were built, the lines were built, to be consistent
I had better put yourself forward twelve months, at some stage
we find the lines are behind us, the lines are behind us, the
are built and they are there and then we find. Mr. Lilan was
making his rate base, and so on, they could begin, there
time to. His name, from Jack on, Mr. Hill, was making his
valuation they would be in there and that is all there would
be so that and so. Conklin would get a rate of return on the
they would be accomplishes. Now but if they are not in rate so
still have - Now with them as capital additions, that is
the term we use. The Gas Company has a rate commence on the

line, they do not hesitate at all if a customer wants gas, to give him gas, and how can they afford to do that? The rate base has been established, there has not been a rate base established in Calgary since 1931 and there have been a lot of consumers connected since that time. It is done because something is given to them to provide for capital additions and then the business of course, that brings us back to good business, the business warrants the additional expenditure because the business gives them the extra money for the operating expenses. Now that is a simple matter in my submission and that is how it is disposed of if it is good business.

Now if it is not good business and I agree entirely with the Chairman that it seems a difficult thing to see, after we have been around these things, if the oil company should say, the pipeline company should say "It is not in our opinion good business and we are atill running this business and we are not going to build the line", then what will happen, then we go to the Pipeline Regulation Act Chaper 4, 1939, and we look at Section 6:

(Go to page number 6998)

"6. (1) Every pipe line the proprietor of which is by this Act or by any Order in Council made pursuant to this Act declared to be a common carrier shall be a public utility within the meaning of the Public Utilities Act, 1923, and the Board shall have all the powers to make orders and regulations as to such pipe line which are conferred upon the Board by Part II of the said Act, and all the provisions of that Act shall mutatis mutandis and so far as the same are applicable thereto apply to every such pipe line and to every order and regulation made by the Board in respect of a pipe line and the enforcement thereof.

(2) Without derogating from the generality of the foregoing the Board shall have the power to regulate and control the said pipe line and the operation thereof and anything incidental thereto and the proprietor thereof in connection with the operation of the said pipe line and anything incidental thereto, and the Board may from time to time make orders for the effective exercise of such regulation and control."

Then we go to Part II of The Public Utilities Act, Chapter 53, of the Statutes of Alberta, 1923, and we find there is power in the light of that section to translate into this Act the provisions with respect to pipe lines. Looking at Section 60 of the Public Utilities Act:

"60. (1) The Board shallhhave a general supervision over all public utilities and the proprietors thereof subject to the legislative authority of the Province, and may make such orders regarding equipment, appliances, safety devices, extension of works or systems, reporting

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"and other matters, as are necessary for the safety or convenience of the public or for the proper carrying out of any contract, charter or franchise involving the use of public property or rights."

Then another section, a little more limited, a little more specific, Section 63, sub-section (d), paragraph 3:-

"63. The Board shall have power by order in writing made, after notice to and hearing of the parties interested -

(d) (iii) to establish, construct, maintain and operate any reasonable extension of its existing facilities when in the judgment of the Board such extension is reasonable and practicable and will furnish sufficient business to justify the construction and maintenance of the same, and when the financial condition of the said proprietor reasonably warrants the original expenditure required in making and operating such extension."

Now I say without reading any further into the Public Utilities Act, should Mr. Coultis and Mr. Plotkins continue to not be able to agree - Mr. Plotkins thinks it is good business and Mr. Coultis insists it is not - then Mr. Plotkins, I think the onus being on him, makes application to The Public Utilities Board and by virtue of the combined effect of the new statute of 1939 and the old Statute, the Public Utilities Act, and they come before the Regulatory Body and then discuss their differences, and if the Board feels it is limited by Section

63, which I have read last, then there has to still be a case made out that it is reasonable and practical, an extension that will furnish sufficient business to justify construction and maintenance. Mr. Plotkins will have confidence he can show that and Mr. Coultis will have to be sure that he can resist such an application, and then the matter is settled and disposed of. And I presume that there is an omnibus clause in this Act some place describing the terms.

THE CHAIRMAN: Suppose we feel it our duty to make that recommendation? You are speaking about what they can do before some other body?

MR. FRAWLEY: Yes.

THE CHAIRMAN: We have heard all the evidence about these connections, at great length. If it was not germane for recommendation by us, we should not have been hearing it. We have heard all that evidence. Supposing we are of the opinion that, functioning under our omnibus clause in our Commission, that we have the right, and we also conceive it to be our duty to see that we now make a recommendation, whether acted upon or not, that there should be a connection to Lion Oils directly to be made.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And all the necessary steps, of course, taken to see that the direction is carried out. Assuming that. What then about payment?

MR. FRAWLEY: Of course I think not only under your omnibus clause, but your clause dealing with handling, that the Commission's right to do this is as wide as the sea, that you can close up these Statutes I have read and can make all the recommendations you like, and

so order that the connection be made either at the Pipe Line Company's expense or at Mr. Plotkins' expense.

THE CHAIRMAN: I rather gathered your suggestion was that where there was a difference of opinion as to whether or not it would be good business, then they should have recourse to the Public Utilities Board of this Province to have it determined what should be done.

MR. FRAWLEY: Yes.

THE CHAIRMAN: What I am putting to youis , if we have had that controversy over whether it is or it is not good business, and whether it should or should not be ordered to be done before us, off and on for some months, I think I speak for both of us when I say we are inclined to make a recommendation with respect to this and we will be glad to hear you upon the point of what the recommendation by us shall be.

MR. FRAWLEY: On these facts.

THE CHAIRMAN: Assuming as you do for the moment that the parties are apart as to whether it is or is not good business.

MR. FRAWLEY: If the Commission wants the benefit that may come to it from my submission as to what should be done under these facts with these two companies, I say without hesitation that the Royalite Oil Company should put that connection in there at its own expense. I think Mr. Plotkins should be treated exactly the same as the British American Oil Company.

MR. NOLAN: How do you know how the British American Oil Company has been treated?

MR. FRAWLEY: I say however they are treated,

and I do not know at all, but however way they are treated - if they are not paying you that is quite right - thank you for the correction - but if they are paying for it themselves once and for all then I am not concerned. I still say, in my submission, that is not what should happen and consequently I say the connection should be made by the Royalite to the Lion Refinery at the expense of the Royalite, and that there should be in the rate, as I say again, something to provide for that capital addition, just as much as there should be in the rate something to provide for the capital additions in the gathering end. And that is the end of it as far as I am concerned.

THE CHAIRMAN: You say the same applies to the B.A.,connection?

MR. FRAWLEY: Quite, that is true.

THE CHAIRMAN: Now let us examine that. I seem to be quite alone in my queries. Supposing someone were 5 miles away and they said they wanted a connection?

MR. FRAWLEY: I was only dealing with this case. I am taking the 1780 feet I have heard referred to in evidence, to the tanks from the pipe line. That is all I say.

THE CHAIRMAN: Where do we draw the line or the circle?

MR. FRAWLEY: I think that is an exceedingly difficult matter to say where the line is drawn. That is the difficulty. I am not going to labour the point unduly because that difficulty does not make this problem difficult. I say that the line extends to Mr. Harvie's plant and that is all we have to deal with at the moment.

THE CHAIRMAN: But supposing we were a

Public Utility Board - you might say by the Grace of God we are not - but we were sitting permanently dealing with these matters as an everyday thing. We lay it down as a principle that anybody setting up a refinery who wants a connection must get it at the expense of the pipe line corporation or corporations.

MR. FRAWLEY: You say everybody, no Sir. I think you must find - I think this must be the only practical way, as cases arise, this Commission, regarding you as the Public Utilities Board, - have just two cases at the moment. Next year when the Utilities Board proper is dealing with it there might be two or three more refineries. One may be near Mr. Plotkins or Mr. Harvie. My submission would be they should have the connection. But Mr. Munro might make application.....

THE CHAIRMAN: Why give it to Mr. Harvie and Mr. Plotkins? Why? I want to get at, is it because it only costs $2000.00, or is only two miles away? Why do they get it and somebody else perhaps not, and somebody else perhaps yes? Is it because they are handsome, we are giving it to them? Is it because it is so little money to be spent or they are so close?

MR. FRAWLEY: No. For two reasons. One, that it is the proper business of this pipe line company to gather, transport and deliver. That is what I start with, and therefore, it being their business as much to deliver as to gather.....

THE CHAIRMAN: But to deliver into what and where?

MR. FRAWLEY: To deliver into the refinery. That seems to be what we take from the evidence here, Mr.

Chairman, that is the proper business to deliver into refineries.

THE CHAIRMAN: To make delivery to the refineries but at what point?

MR. FRAWLEY: There must be a place where you would say "Thus far and no further."

THE CHAIRMAN: How do we arrive at that?

MR. FRAWLEY: I think it would be idle for me to take a map and to take my pencil and draw a line around here, look at it a second time and say "No, perhaps there," and draw a line around the City of Calgary or around that terminal. I think that would be difficult.

THE CHAIRMAN: I see the difficulty there. But what I cannot see is the facility with which you say these two who are before us should get it. Why?

MR. FRAWLEY: First of all, in my humble submission, they should know better than I do, but I am being asked for my submission. On the evidence it should be a good business-like proposition to put it into both places. That is my first submission. It should be businesslike. They are a utility and they are subject to be ordered to make the connection. That is perhaps something to keep in mind. They are a utility. They are now impressed with this public trust of serving the public, I say both as to gathering and delivering. Perhaps I am going around in a circle, but I point to what they do in fact. You might say "Do not be misled by what they do. They might change it to-morrow." But we know they went 6 miles to the Home-Millarville well in Turner Valley to get that production.

MR. NOLAN: No, there was not 6 miles

of new line required for that connection.

MR. FRAWLEY: I am sorry, I thought it was 6 miles. But however the number of miles away, they had to go at that time, they went. It was an outpost. They went out further than they had gone before.

THE CHAIRMAN: That is surely not parallel, if I may suggest it. There they are going voluntarily to get business. It might be the time will come when the regulatory body will say "We will not allow you to go into new wells to get business and keep other people out." Or "It is going to costly and we won't allow you to do that." I can understand them going out and grabbing - and I use that word without offence - and keeping all the business they can. Obviously they are keeping the monopolistic situation as long as they get in touch with each well as it comes in. That is a thing they are going to do voluntarily. But is there any argument when it comes to compulsion.

MR. FRAWLEY: What they are doing there voluntarily perhaps is not a good thing to apply when you are asking me why they should be compelled.

THE CHAIRMAN: I am not arguing with you, Mr. Frawley. I am just thinking out loud and getting the benefit of your views upon my thoughts. Supposing someone is just 100 yards nearer to the trunk line than Plotkins, but you have to go through very valuable property to make that connection. Would you say that is something for the Public Utilities Board to consider every time?

MR. FRAWLEY: You mean they would have to pay large sums for surface rights and so on?

THE CHAIRMAN: Yes. What I am getting at,

it strikes me, and I am very willing to hear anything to the contrary, but it strikes me in a rate base there must be something stable about the base. You may flirt around all you like with the service rate, but to get it that you want to say every time someone wants a connection "We are going to put it into the base," that is different.

MR. FRAWLEY: You do not put it into the base until another hearing has come about in two, three, five or ten years' time. Then you have another capital base to submit to the Board and you hope you will get in your rate then not only your tanks but your gathering lines and service lines.

THE CHAIRMAN: And meantime you are treating it as an operating charge?

MR. FRAWLEY: Meantime you treat it as an operating charge. In the meantime every single case,-in my humble submission, it is futile to endeavour, and it is so difficult and no good can come from it, to arrive at a general rule. I say we have the B.A., and the Lion, and fortunately that is all we have got. Let us apply our minds to the B.A. Is it good business in the opinion of this Commission that they should, having some control of their own money, that they should not waste it, and that they should not build lines for everyone, and the Board will see that they take care of it. But take the B.A. We have some knowledge of the throughput and some idea of the solidarity of the British American Oil Company, and their financial ability to pay and with that this Commission would say, if it were asked, if they had an application under Section 63 of the Public Utilities Act, they would say "Yes, that is good business,

and if all the other conditions are complied with we will order that the extension be made. We will order it at your expense as distinguished from the B.A. Oil Company's expense."

THE CHAIRMAN: Mr. Coultis' evidence is to the effect that with respect to the Imperial, that with the line already there, placed there with their own money where they wanted to put it, and when they were under no regulatory body of any kind and they fixed their terminal. It happened to suit the book of the refinery, it is true, but it is the refinery that had to do that, assuming the risk of the capital it had invested. At any rate they surely were entitled to make their own selection of their terminal, and run their trunk line where they like. Is it unreasonable what he, in effect says, that those who want to also make use of this trunk line, or anybody that takes control of us by statutory power and requires us to give the use to others of our line, should come to our line to get his goods.

MR. FRAWLEY: At their own expense?

THE CHAIRMAN: At his own expense.

MR. FRAWLEY: My answer to that is simply, while this Commission is not bound by the considerations which are in the Public Utilities Act, if you will pardon me, you must go to the Public Utilities Act and say this, that Mr. Coultis rightly or wrongly this pipe line has been made a public utility, it has been made subject to those provisions. I have no doubt at all that tomorrow a Board could entertain an application under Section 63, and require that expenditure by the Royalite Oil Company to be made, if the conditions, and they are

simple ones, under Section 63 were complied with. I think that is the answer to the suggestion you make, Mr. Chairman. I say in your case you are not bound by that. You can recommend quite in the face of that section, in these two cases, if you want to do so.

MR. NOLAN: May I interrupt? Earlier the Chairman said to me something about the cost of this B.A., line. This B.A., line is now operating, constructed and, I think, we have got to think about it in the light of what the facts are and not in the light of what the operating expenses are going to be to this Company.

MR. COMMISSIONER LIPSETT: Mr. Nolan, on that point, under Section 4 of this Pipe Line Act, this new Act, it says "No proprietor of a pipe line who is a common carrier shall directly or indirectly make or cause to be made or suffer or allow to be made any discrimination of any kind as between any of the persons for whom any petroleum is gathered or transported or handled or delivered by means of such pipe line." Is there any discrimination between the B.A., and the Lion Refinery?

MR. NOLAN: The B.A., have a line that they built themselves. Mr. Plotkins has not got one. Those are the facts.

MR. FRAWLEY: While they built it you had to connect it.

MR. COMMISSIONER LIPSETT: Mr. Plotkins has been trying to get one for a long time.

MR. NOLAN: You mean he is discriminated against because he did not get it?

MR. FRAWLEY: Following up Mr. Commissioner Lipsett's point. You made the connection with the B.A.,

voluntarily? They did not force themselves in and cut a hole in your pipe?

MR. NOLAN: No, we gave them the connection.

MR. FRAWLEY: And you did not give one to Mr. Plotkins. So if we do not go any further than to afford a connection, I say we have a fait accompli. We have this Company subject to all the provisions of the Public Utilities Act.

THE CHAIRMAN: I am not questioning the power to make this Imperial Royalite put down this line. I am questioning the fairness of it.

MR. FRAWLEY: Supposing you were the Chairman of the Public Utilities Board and you had to deal with an application under Section 63, you would have no doubt you would have to apply your mind to these considerations and say whether in your judgment the extension was reasonable and practicable and would furnish sufficient business to justify it. If you came to those conclusions I would think, without any further ado, that the Company would be ordered to put it in. I would think so. There may be other considerations over and above that, that do not occur to me at the moment. But that is the problem you would be faced with.

THE CHAIRMAN: You look to the Public Utilities Act for your power, but whether or not you say that that section had in contemplation a pipe line matter...

MR. FRAWLEY: I think we have to make it so, Sir, because of the new Act. We have to do the best we can mutatis mutandis for the provision for pipe line. That is not your problem I quite agree.

THE CHAIRMAN: My problem is what is fair about this.

MR. FRAWLEY: Yes, you have to say on those facts.

THE CHAIRMAN: I do not think there is very much involved in dollars really, to anybody. I am justifying the time we took over it one way or another. After all there is a broad principle at stake as to whether or not when a man spends money on a line and it is taken over by a regulatory body under statutory authority, whether he has got to then run service lines all over the country as refineries may set themselves up here, there and everywhere, if it is thought it might be good business to do it.

MR. FRAWLEY: You see a distinction between the fact the pipe line was there first and the refineries came afterwards?

THE CHAIRMAN: I certainly do. Because after all the pipe line selected its site. The refineries selected their sites. It is now a question that either one of two people should pay, the Imperial Royalite on the one hand or the public who are not in the refinery business on the other, for going the extra distance that the refinery of its own volition happens to select, it is difficult for me to determine.

MR. FRAWLEY: I do not mean there would be anything automatic. You do not just simply like buying a stamp in the Post Office go to the Board and say "I want this Order." The Board must carefully consider each case on its merits. They might very well, notwithstanding say he is 100 yards from the pipe line, refuse to order the utility to make the connection.

THE CHAIRMAN: If we were on that Board, as you are putting it to us, would we not have to set some standard for ourselves, some standard of conduct and some formula by which we would act? Some line beyond which we would not go?

MR. FRAWLEY: And say whether that formula affects this case, with great respect I say not, Sir.

THE CHAIRMAN: So ipsy-dipsy, every time a case comes up we say "Well to-day is Friday and we will give you the order."

MR. FRAWLEY: And we won't tomorrow.

THE CHAIRMAN: Is there not some guide, some limitation of area, some limitation of expense? Something?

MR. FRAWLEY: I say, Sir, why go beyond the immediate problem. The problem would be company "X" at station "Y". We would have to say "Is it good business to put that connection in?" Not a hundred other connections that we could imagine, but that connection.

THE CHAIRMAN: And you say that they should determine each application as to whether it be or be not good business in the opinion of the regulatory body?

MR. FRAWLEY: And other considerations, where they are under that Statute and whether it is proper for him to do it or will it just bankrupt him?

THE CHAIRMAN: That would be all covered by good business.

MR. FRAWLEY: Let us put it as an all-embracing expression, whether it is good business in this particular instance to do it. That eliminates all

other questions.

THE CHAIRMAN: You say if it is good business there can be no reason except, at least it is unreasonable for the utility to want to refuse and that they should be compelled.

MR. FRAILEY: May I say good business for both parties? I think the interests of both parties, the applicant and the utility, must be considered, and if it is good business all around to do it. That will get us away from these suggestions running through this evidence.....

THE CHAIRMAN: You say with respect to these two cases it is in your submission good business?

MR. FRAILEY: In regard to these two companies it is good business.

THE CHAIRMAN: And therefore the pipe line utility should put up the money?

MR. FRAILEY: Put up the money, yes. We have the evidence, by the way, of Mr. Hill, who, I think said as he saw it it looked like good business in his opinion. Mr. Naylor too, I think, perhaps the both of them.

THE CHAIRMAN: Do I understand you to say we should find, following out your reasoning, in doing our duty in the matter we should arrive at a rate, a service rate, regardless of these connections, and we should increasee it to take care of these connections.

MR. FRAILEY: The pipeline rate?

THE CHAIRMAN: Yes?

MR. FRAILEY: No. I can only say as to that there should be something in there, in the rate base

to take care of - in the rate, not in the rate base. In the rate. The rate should be sufficiently high to provide something, some lump sum thrown in there for future capital additions. You cannot do it scientifically. You cannot be absolutely exact about it, because for all we know another refinery may come along next month, next to Mr. Harvie or to Mr. Plotkins and ask Mr. Coultis for a connection.

THE CHAIRMAN: You say whatever allowance we make for future capital investments, this part ought to be taken out and used in that way, as further connections in the Valley would be?

MR. FRAILEY: That is it exactly, Sir, as I see it.

THE CHAIRMAN: I understand.

MR. FRAILEY: That concludes all I have to say.

THE CHAIRMAN: Have you anything to say?

MR. NOLAN: No thank you, Sir.

MR. PLOTKINS: No thank you, Sir.

THE CHAIRMAN: I thank you very much for your assistance. We will meet on Monday morning at 10.30 o'clock.

MR. NOLAN: May I speak on the adjournment as to Monday. My first reason for not wanting the Commission to sit on Monday is a personal one and it is of no interest. But I cannot be here on Monday. Perhaps other work could be done or that does not matter, I could send someone else. Another reason is I have a witness coming from the East and I have found in the past it is very awkward to have the evidence taken of these out-of-town

witnesses on Monday morning. What it involves is you have to work all day Sunday with them. I wondered if, on Wednesday night, at this hour, the Commission felt that perhaps an adjournment to Tuesday morning would not be too great a delay, because as I understand, Sir, you are going to consider for the next few days this matter and if it did not inconvenience the Commission or Counsel too greatly, may I respectfully suggest Tuesday morning? I know how anxious you are to get on, and I know that every day counts. But perhaps when you are considering this mass of evidence you will find that you might like to have Monday too for the work you have set out before you.

THE CHAIRMAN: What do you say, Mr.Frawley.

MR. FRAWLEY: Only as to that that I am just in this position, I cannot consent to Mr. Nolan's application. As far as I am concerned it is the personal reason that appeals to me more than the other one. Nobody else can take Mr. Nolan's witnesses, and as I have only his witnesses to go on with, as I see it I cannot do that. I have never tried to inconvenience fellow-Counsel.....

MR.NOLAN: I consider it a personal request. It is something I cannot help doing, It is a matter that comes on in Edmonton on Monday morning at 10 o'clock and I must be there.

MR. FRAWLEY: I do want to put on the record my great anxiety to press on without further delay.

THE CHAIRMAN: We note your anxiety to press on, Mr. Frawley. If it is a proper case for adjourn-

ment of course we will grant it, regardless of anybody's anxiety to proceed. What do you say Mr.Harvie?

MR.HARVIE: I have no objection.

THE CHAIRMAN: Mr. Plotkins?

MR. PLOTKINS: I have no objection under the circumstances.

THE CHAIRMAN: Well, I think our feeling is having heard the arguments which we have heard to-day, that we will probably be very fully occupied until Tuesday morning, and have our report out then. I think, Mr. Nolan, we will grant your application.

MR. NOLAN: I appreciate that very much indeed.

(At this stage the Hearing was adjourned until 10.30 A.M., 16th May, 1939.)

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta MAY 16th, 1939

VOLUME 58

I N D E X

VOLUME 58 - May 16th, 1939.

WITNESSES:

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E X H I B I T S

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T. E. Burns.

10:30 A. M. Session
May 16th, 1939.

MR. FRAWLEY: Mr. Chairman, it was expected when we adjourned last week that Mr. McGrath from Toronto would be here this morning to make a submission on behalf of the Imperial Oil, with respect to the posted field price of crude in Turner Valley. However, Mr. McGrath became ill and was not able to leave Toronto until Sunday. He is now on his way and will be here to-morrow morning. We arranged with Mr. Nolan so that he would have a day with Mr. McGrath when he arrived, so that means Mr. McGrath and Mr. Nolan cannot commence until Thursday morning, so it is a question now of putting in time really until Thursday morning. However, I have arranged with Mr. Burns that he should come this morning to continue his cross-examination by Mr. Plotkins. I had finished with Mr. Burns, I think, when he stood down, and I think all the other people had, except Mr. Plotkins. I called Mr. Plotkins on the 'phone, on short notice, about twenty minutes past ten, and he said he would come directly up, he said he would come in his car immediately and I thought, perhaps, in the ten or fifteen minutes, he would have been here. I am sure it will not be but a very few minutes until he is here to resume his cross-examination of Mr. Burns.

MR. NOLAN: What particular branch is Mr. Plotkins cross-examining on, I have forgotten.

MR. FRAWLEY: I cannot help you, except I do recall that when Mr. Burns stood down it was understood that Mr. Plotkins had not completed his cross-examination.

THE CHAIRMAN: Oh, yes.

MR. NOLAN: I have forgotten what it was

about, it is not pipeline.

MR. FRAWLEY: Oh, no, it is on the cost of production.

THE CHAIRMAN: No, it is not pipeline.

MR. FRAWLEY: Whatever else it is.

THE CHAIRMAN: At least, if that is Mr. Plotkins' intention, he is going to be disappointed. Well, you can let us know.

MR. FRAWLEY: Yes, thank you.

(An adjournment of five minutes was here taken.)

MR. FRAWLEY: Mr. Burns.

.....

THOMAS E. BURNS, having been recalled:

MR. FRAWLEY: Well, Mr. Plotkins, I think all that remained of Mr. Burns' evidence on the question of cost of production was to complete your cross-examination.

Q MAJOR LIPSETT: You were also going to try and bring that Jersey statement down to the end of 1938, Mr. Burns, you said that you could, I think?

A Yes, in that connection, Sir, I have been able to review, to make a statement for the year 1938, and also a composite statement for the period from the first of January, 1930, until the 31st of December, 1938, and I have them with me.

Q Thank you very much.

THE CHAIRMAN: Perhaps, we might as well put them in before Mr. Plotkins starts, Mr. Burns.

A For the year ending December 31st, 1938.

Q MR. FRAWLEY: You are submitting, Mr. Burns, a statement entitled "Royalite Oil Company, Limited, Costs of Producing Crude Oils, Income by Departments from Products

and Pipeline for Use in Computing Costs of Producing Oils", for the year ending December 31st, 1938, this is what could be called a "Jersey statement"?

A No longer, I do not think, Sir, because they specifically told us not to make any more.

Q That is right, that is a very proper qualification, but it is made up along the same lines as the Jersey statements?

A I think it should be called a "cost statement", which purports to split indirect expenses on the basis of gross revenue.

Q Yes, then this will be marked as an Exhibit.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "255".)

Q MAJOR LIPSETT: That figure on page 2 on crude of .7876 would be comparable with the .86 figure in the 1937 Jersey statement?

A Yes, I believe that was, that .86 was the figure.

Q I mean they are comparable figures?

A That is the comparable figure for the year 1938. May I also put in this other, the composite statement?

Q MR. FRAWLEY: Yes, you have another one?

A Yes, for the nine year period, the same statement.

Q It is a composite statement, this is called "Royalite Oil Company, Limited, January 1st, 1930, to December 31st, 1938, Cost of Producing Oils; Income by Departments from Products and Pipeline for Use in Computing Cost of Producing Oils", this, you say, is a statement similar to the Jersey statements, the so-called Jersey statements, and to Exhibit "255", and is a composite of all of those statements?

A It is a composite for all of those years.

Q Yes, all right.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "256".)

Q MAJOR LIPSETT: I suppose, Mr. Burns, the slight decrease in your cost of production on this basis would be largely accounted for by the increased volume, would it?

A No, the slight decrease, are you referring now to the statement "255"?

Q Yes, the .78 as against the .86?

A This is .83 for the nine-year period.

Q I was talking about Exhibit "255"?

A Oh, yes.

Q Which shows----

A No, I would say that Exhibit "255", being the annual statement, has little value in establishing the cost of producing crude oil; it is merely a breakdown of the expenses and revenue for that year, as reported in the company's financial statement, but being an annual statement, the cost is not complete. It might have been what it cost in that particular year, having regard to the fact that there is only included in here the amount of depletion which was actually booked during the year, and the amount of depreciation which was actually booked during that year.

Q Is that to say that in a more prosperous year, that a larger sum might be allocated to depletion, or something like that?

A No, but I believe that the statement for one year would not be conclusive in determining the cost of producing crude oil.

Q Well, would it be more or less comparable, would the .86 on the 1937 be comparable with the .78 cents per barrel in 1938?

T. E. Burns.

A They are comparable figures, they are arrived at in the same method, yes.

THE CHAIRMAN: All right, Mr. Plotkins.

Q MR. PLOTKINS: Mr. Burns, do these figures represented in "255", these figures, each in their class, for instance, "Wells Operating Expenses", the item there, $265,515.28?

A Yes.

Q Is that as a result of dividing all the expenses of the Royalite Oil Company according to the use that was made of the money; in other words, is that reconciled with the total expenses of the company, in the different departments, or is there any overlapping?

A No, on page 3 you will find a reconciliation showing the items which have been omitted and effecting a reconciliation with the profit and loss of the company as reported in its audited financial statement for the year 1938.

Q So that you say there has been a reconciliation, if we total all the different operating departments of the Royalite in their various subdivisions we would find a figure equal to the general, the total expenses of the Royalite Oil Company as a whole, there is no overlapping?

A No, there is no overlapping.

Q Now, when you say the financial statement, is that any different from your operating statement?

A When I say the financial statement I refer to the audited and published financial statement which you send annually to the shareholders of the company.

Q Well, now, could that be read as being exactly the same as the operating statements of the company?

T. E. Burns,

A Well, it is prepared from the books of the company, prepared by the company's auditor, and I believe that it can be said to be so, yes.

Q So that you say that instead of using the operating records as a basis for establishing your cost figures in here, you actually reconciled your total operations as against your financial statement?

A No, we split all of the indirect operating expenses on the basis of gross revenue in this statement.

Q In that statement?

A Yes.

Q And do you do so in your operating records, I mean the split which you have made in your operating expenses, are they the same as you have recorded in your operating account?

A No, I think I have stated in the past in giving evidence here that in the operating statements we have never been concerned with making an absolute split of the expenses; it has never been necessary for us to do it; all we wanted to have was a rough idea of what each department is costing and that is all that has ever been determined.

Q Now, when you established the cost figure for crude for the purpose of having it supplied to your refining department, so that they in turn may be able to know what it costs to produce a gallon of gasoline, would you call that a rough idea, or do you supply them with a figure which is just a rough idea?

A Well, I have no knowledge of supplying them with any figures to determine the price of crude oil in Turner Valley.

Q Not the price of crude oil but does your company give the refining department a base cost figure on crude oil for

T. E. Burns.

the purposes of their cost determination?

A I cannot say.

Q You cannot say?

A No.

Q Not to your knowledge?

A No, not to my knowledge.

Q So that this "Wells Operating Expense " is a split-up on the basis of gross revenue of the total expenses of the company?

A No, not Wells Operating Expense , Wells Operating Expense is shown here as the amount which we have allocated in our own books as being the cost of operating all of the wells of the company during the year 1938.

Q That is the wells owned and operated by the company?

A The wells owned and operated by the company.

Q Not including the wells which you have under contract, which you may manage?

A Oh, no.

Q Or have an interest in?

A No.

Q The same, I presume the same applies to administrative and general expenses?

A Yes, exactly so. However, administrative and general expenses includes all administrative taxes, such as the Province of Alberta income taxes, and it includes the entire accounting expenses of the company and many other similar costs of an administrative nature.

Q Now, in connection with the companies that you administer and which you do not take into account the revenue, how do you make a split-up if it is on the basis of revenue,

T. E. Burns.

there are a number of companies that you do not take the revenue in, it is a straight expense, how do you take care of that situation?

A In most cases there is an operating charge, charging the company with all its operating expenses, the wages of the men actually operating the well, and to that is added, generally, a fixed charge for administrative and clerical assistance.

Q And you deduct that fixed charge in arriving at this figure here, is that correct?

A No, we add a fixed charge to the direct operating expenses.

Q But I mean to arrive at this figure for your own wells, then are we to understand you went through your books and deducted all the items which you received for the purposes of administrating other companies' affairs?

A No, currently we maintain an account in our books for wells operating expenses, which pertains only to the wells of the Royalite Oil Company.

Q So that they are not in these figures at all?

A That is correct.

Q Now, we find a figure here, an item "Depletion , $494,258.61 for the year?

A Yes.

Q What is the basis of this item for depletion?

A The basis is the Dominion Income Tax allowance calculated at 25% of the net operating income of the company.

Q That is the Dominion Govermment for the purposes of taxation permits you to make that deduction to arrive at the taxable figure?

A That is correct.

Q And is that, by what virtue is that an expense?

A Well, there has been an actual withdrawal of products from the wells, and good accounting practice would call for its being shown as an expense.

Q What is the basis, is that the only one, 25% of the income tax, I mean there is no other figure you use, you would carry that on every year as long as there is the income, is that correct?

A That is correct, so far as the Dominion Income Tax laws are presently administered.

Q So that it has no relation to any original value that was there before you acquired the property, or that you may have put there after you acquired the property?

A No.

Q So that why should it be an expense, you never had it and never put it there?

A Oh, yes, we put it there in the development of the wells, and the development of the land, the drilling of the well, that is what we are allowed, that is what it is given for, we purchased leases.

Q But we are trying to arrive at the cost of something, not at the value?

A That is right and correct.

Q So when you take into consideration only cost you can only amortize and recover what you put there, plus a profit, so that I would like to have your views as to why that item of $494,000.00 should be an expense and majored in the cost, that is a book figure of producing a barrel of crude?

A Well, had it not been there we would have had to take into consideration the cost of the leases and the cost of the

development work upon the leases, that is in the drilling of the well, that is the capital development, but that I have already submitted in another statement with respect to the costs of the wells, Sterling Pacific's 3, 4, 5 and 6; this is made up on an entirely different basis.

(Page 7026 follows.)

T. E. Burns.

Q So we can understand in lieu of the development cost and in lieu of the value of the lease that you paid for originally that you introduced the item of depletion?

A Thqt is correct.

Q That is to balance the development cost?

A That is the amount allowed to us by the Dominion Income Tax Department.

Q That is in reality an item of physical depletion of the land?

A It is merely an allowance made to us by the Dominion Income Tax Branch.

Q Are you called upon by the Standard Oil of New Jereey or the Imperial Oil to determine the cost of producing a barrel of crude from year to year?

A No.

Q So that you have no - you cannot give us any basis that they might use for arriving at such a figure?

A I know of no such basis.

Q In the books on accounting procedures that were introduced earlier in this Inquiry, would there be anything in there that would give the Commission accountant any information as to how that is arrived at by the Company?

A I know of no such source of information.

Q Would you say that the item of depletion on the basis of the Royalite's experience for the last 9 years of crude production would be greater than the cost of development costs, including the costs of the leases?

A We have an item of $2,418,645.14 and in order to properly answer your question I would have to look at the financial statement for the year ending 31st December, 1929, and also look at the financial statement for the year ending

31st December, 1930 to determine how much there had been spent in capital developments and leases or how much had been apportioned in the case of the acquisition of wells and properties for shares, then I would have to show - the financial statements would then show how much we had apportioned as the book value of those assets.

Q You are not at the present time in a position to give us any approximate estimate?

A No.

Q This statement for 10 years from January 1st, 1930 to December 31st, 1938, is also figured on the same basis allowing depletion instead of development cost?

A Yes. It purports to split all the indirect expenses including the allowance made by the Dominion Income Tax Department for depletion on the basis of gross income by departments.

Q Now we have another item for reserve for Dominion Income Tax, $232,338.49?

A That is correct.

Q Why is that an expense?

A Well it cannot be called capital develoment very well.

Q No, but is it not a tax on profits?

A It is a tax on profits.

Q So that until you have made a profit it certainly should not enter into an item of expense. The ordinary man on the street has to pay it out of his income after he has received it. He is not allowed to use it as an item of expense. Why should it figure as an item of expense in your statement?

A Perhaps a corporation is somewhat different from the

ordinary man on the street. At least the basis of paying Income Tax and the basis of assessment is different, in many instances. The man on the street, there is a sliding scale of rates. The more income the more he pays. The corporation is limited by the Dominion Income Tax Branch to 15%. I do not think they can be compared, the man on the street and the corporation.

Q You do not think the burden of Government should fall on companies as well as on individuals?

A Well I would not say that. I am saying the man on the street cannot be compared as far as Income Tax to a corporation.

Q Is it not the effect then of this item being introduced as an expense to throw back on the general public the item of Government support?

A It is not available for dividends to shareholders because it has to be paid to a Dominion Department. I will put it that way.

Q When you make up your budgets covering your financial requirements from year to year - and when I say you I mean your Company, the Royalite - when it comes to development expenses or to the development programme, you prepare a budget each year for the number of wells that you propose to drill?

A Yes, either the number of wells or the number of thousands of feet that we expect to drill in the Turner Valley.

Q And you show what your estimated cost of development or drilling those wells is going to be?

A That is correct.

Q And you also show the estimated production that you will derive from that year's programme?

A Yes, we do.

Q And you also show that in so many months you will recover the cost of that programme?

A No.

Q Has it not been the general practice of your Company every year to say "We will drill so many wells. It will cost us so much and we will recover that much money in so many months out of so many millions or hundreds of thousands of barrels of crude."

A There have been years in which we said we would not do any drilling.

Q Would you be in a position to supply this Commission with these statements?

A I believe I have already submitted the budget for the year 1939, haven't I?

Q Yes, but it does not include the pertinent information which is how long it will take you to recover that cost, so that you have then a basis for determining the cost of production?

A Oh, it is not a very serious estimate that we make with respect to the anticipated recovery. I mean that is true that it is shown on these statements. For our ordinary operations we do make a calculation to show how much we are likely to recover in the year. But it is something that cannot be estimated accurately. There are many unknown factors. It is uncertain. We make it very conservative.

Q Yes, we have heard quite a bit of evidence about all the unknown factors, but the fact remains that your budget must satisfy your superiors and to justify the investment? It must serve to give your superior officers that information in order to authorize the expenditures. So that you would not say it is just an offhand guess?

A Well I would say it is an offhand guess.

Q You have the past year's experience when it comes to the present year. For instance the 1938 budget, when you submitted it was, the figures thqt were included in that budget were naturally based on your experience of 1937 were they not?

A No, I would not say that.

Q In other words, you were not in a position in 1938 to go back over your books and say "We drilled so many wells in 1937 and we recovered so much crude oil, and that has produced so much money."

A Yes, we were able to go to our books. We have all the information.

Q Was it not then on the basis of 1937, 1936, 1935 and so on, that you prepared your budget for 1938?

A No.

Q Which was submitted to your superior officers?

A No.

Q Well the figures will speak for themselves will they not?

A You already have the budget, I believe.

Q But besides this budget when you submitted the budget of so many wells, I think it was 11 wells or 10 wells, at a cost of $1,000,000.00 or something, either under or over $1,000,000.00, would you supply the Commission with the added information as to the expected recovery? In dollars and cents and in barrels, and the length of time your investment will be out?

A I do not believe that has ever been reduced to writing. We have discussed it. I can recall that. But I do not recall ever having.....

Q You do not know of the existence of such statements?

A No.

Q This figure of .7876 is what this statement shows to be the cost of producing a barrel of crude for the year 1938 under this system of accounting?

A Under this system of splitting indirect expenses.

Q Have you any other method in use in your Company to arrive at the cost of a barrel of crude?

A I have submitted another statement with respect to Sterling Pacific wells, 3, 4, 5 and 6, and in there I have projected the revenues and expenses into the future, as the statement will show.

Q That is a made up statement. What I mean by that is it is not an operating statement that you have submitted, it is merely an estimate placing yourself on projections into the future as to what you believe according to that statement will be the cost. Is that crrect?

A That is correct.

Q But in your Company's operations you have an operating account that will give you, according to the way you keep your records, and according to splitting up depreciation in use in your accounting department, a cost figure?

A Yes, this statement has been prepared from the.....

Q This is a statement that has been prepared, but would you have in your operating records the cost of producing a barrel of oil?

A No. We do not in our ordinary accounting, we do not split these indirect expenses.

Q Where is that done in order to arrive at the book cost?

A It is not done.

Q You mean it is not done by your Company.

A You are speaking now of the Royalite Oil Company I presume?

Q Yes?

A This statement is headed Royalite Oil Company. That is not done by the Royalite.

Q So we would have to go to the parent Company in order to find the operating cost of producing a barrel of crude?

A I have no knowledge of any such operating cost. I doubt if there is any such statement.

Q Why do you doubt so?

A I think I would have heard of it if there had been one.

Q You would have heard of it?

A I think I would have. I have never heard of one.

Q You would thihk the refinery or the sales department would be interested in the cost of producing a barrel of crude, wouldn't they?

A I have no knowledge of it.

Q You have not heard Mr. McGrath tell us that crude had to compete, that is the price of crude and therefore the cost of producing crude had to compete with all other markets in order to be on an economic basis?

A While I did not hear him say it, if he did, I cannot see it has to do with the cost of producing crude oils in Turner Valley?

Q You do not think it has anything to do with it?

A Prices set by competition are not necessarily prices as set by costs.

Q Well, Mr.Burns, if the price was set by competition and not by costs, where would your Company end up in the long run?

A I do not know.

Q You do not know?

A No.

Q That is not within your province to determine?

A No.

Q The officers of the other companies, that is their duty, I presume, to do that? So that is the reason why you are not interested in the cost, in getting the true cost of producing a barrel of crude? Is that right or wrong?

A I do not understand your question. I would be concerned with it now. I have gone over it and prepared these statements now, and here I have two more. I am concerned to that extent.

Q Are not the statements prepared with a view of justifying the cost?

A No. These statements will tie in to the published financial statements of the Company. This statement here for the 9 years can be reconciled with the audited financial statements. This for the year 1938 might also be reconciled. There is a reconciliation there on Page 3.

Q But, Mr. Burns, we spent weeks going through that financial statement and the auditors of your Company were not able to definitely make the split-up of the total operating expenses of the Company and were compelled, due to circumstances, to make some sort of an estimate. Now if that is so, if your Company does not make a split-up except on some arbitrary basis, and only for the purposes of reconciliation with your financial statements, what scientific basis is there or how close is this statement to the truth?

A I have never said it was either scientific or the truth. I was asked to prepare it and I have done so. Mr. Larson, the auditor for the Commission, stated he would not subscribe

to this method of computation. In previous evidence, dealing with the pipe line phase of the matter, I have said it was only prepared to give us an idea as to the evaluation of the cost of producing crude oil, inasmuch as we are obliged to show on the financial statements of the Company inventories of the products and the price at cost or market, whichever is lower. By these statements we show cost to be lower and we have so reported it in the financial statements. But the statements are only annual as I have said before, and do not take into consideration development costs or there are many imperfections. I cannot say. The splits have been made on the basis of gross revenue and taking for an example wells operating expense $265,515.28. Under this basis we show $164,986.95 applicable to crude oil , only $6,473.79 applicable to crude naphtha, and $94,054.64 applicable to the production of natural gas. I do not know whether that is the actual amount of wells operating expenses or not, but it is at least a basis for splitting it, and the statement is merely as it shows, it splits....

Q That is in this statement here?

A It splits the indirect expenses on the basis of income by departments.

Q I notice the comparative smallness of one item of the expense, applicable to the gas production. Is that figure related to the split-up that you told us is on the basis of gross revenue?

A What figure is that?

Q Will you read them figures again you mentioned a little while ago?

A With regard to wells' operating expense?

T. E. Burns.

Q On what page is that?

A On Page 2. For the year 1938 this statement purports to split $94,054.54 to the gas business of the Company, the natural gas business. On sales and operating expenses.

Q This is the gas split-up and this is the naphtha and this is the crude oil?

A Yes, on the basis of revenue.

Q So that is the split-up on the basis of revenue?

A That is correct.

Q Can you tell us what the effect of low allowable figures as set by the Conservation Board in Turner Valley is on your operating cost with respect to your wells for the past winter?

A No, I have not prepared any information on that. I have never prepared it.

Q The expense being more or less fixed, labour and operating expenses being more or less fixed, the cost, the operating cost of producing a barrel of oil on a field allowable of 10,000 would be considerably greater than under a field allowable of 22,500 barrels would it not?

A Generally speaking, I believe it would. There may, however, be some methods of effecting economies such as the combined operation of several wells.

Q That is what I am coming to. Your Company, due to the fact it has a certain number of wells of its own, and a certain number of wells which it manages for others, and a certain number of wells in which it owns an interest more or less, is able to effect considerable economies when circumstances warrant it?

A Yes, it is able to do so.

Q And that places your Company and the wells that you operate for others in a favourable position as against the independent with one well or two wells?

A Oh no. They can do the same.

Q They can do the same?

A Yes. One crew could look after the wells of two companies, if they wanted to get together. They can effect those economies.

Q How many wells are there in Turner Valley that are in that position that they could combine their operations and effect economies? If we take into consideration all the wells that you have under contract and operate for others?

A I cannot say.

Q There are not very many?

A I haven't any idea.

Q So that when the allowable is down to 10,000 barrels your Company is still able to maintain a reasonable low operating cost and the independent producer that is managing his own well is, as the evidence has been produced here, in the difficult position of having excessively high operating costs?

A I do not subscribe to that opinion.

Q You don't?

A No.

Q Is not that one of the factors that you as part of your Company do not create when you set marketing figures or give marketing figures to the Conservation Board that cause a low allowable?

A I do not know about that. I have never set any figures.

Q You are secretary - how is the market, the available

market passed on to your Company?

A I believe the refineries make a nomination and say how much crude oil they want.

Q Mr. Moore at the Imperial Refinery makes the nomination to the Conservation Board?

A I believe so.

Q Is it not after consultation with the Royalite Oil Company?

A I think it is. But I have no knowledge of such conversations.

Q That is probably not within your province?

A That is correct.

Q So that if there were a pre-arranged balancing between the consumption of all other companies and if the Imperial felt that the balance caused a figure of 10,000 barrels to be set as the allowable, would give the average well, that is the independent, high operating costs, would you think that would be beneficial to the Royalite and to the Imperial and to The Standard Oil of New Jersey?

A I do not know.

Q Would you dispute that it is a fact at the present time in Turner Valley?

A I do not know. I do not really understand your question, Mr. Plotkins.

Q Is that really above your knowledge of the business?

A Well I do not understand your question. It was a rather involved one.

Q Well, we will say that in order to bring down a certain number of wells where we know the fact is, we know that the independent wells, the figures are available from

the Conservation Board as to their potential, we know the daily allowable. That would be absorbed in the percentage of potential. You follow me so far, in Turner Valley?

A We get the allowable from the Conservation Board, is that what you mean?

Q Yes. Now let us start at the beginning. You know as the Roualite Oil Company and as a pipe line carrier, that you have refused to take oil over and above the allowable, you know that?

A Yes.

Q And that is according to your views perfectly legitimate. Now that allowable was communicated to you by the Conservation Board?

A It is communicated to every one. It is a published order.

(Go to Page 7039).

Q The potential of each well is not a secret?

A No.

Q You are able to look up the records and find out what the well can produce?

A Our own wells?

Q Anybody's wells?

MR. FRAWLEY: Well the allowables are published?

A The allowables are published.

Q MR. PLOTKINS: And the potentials are published?

A I cannot say whether we might be able to go and get the allowables for other wells.

Q MR. FRAWLEY: You mean the potentials on other wells?

A The potentials on other wells.

Q MR. PLOTKINS: They are published and they are on file at the Conservation Board, they are public, according to the Act they are public property, according to the Act I mean, and they are certainly available to your company?

A Oh I have no knowledge of it.

Q You have no knowledge, you do not keep on hand at the offices of the Royalite at all a complete list of all the wells that are drilled or drilling in Turner Valley and with respect to the drilled wells, you do not keep an accurate check on the potentials and allowables from time to time?

A I do not keep it, I have a list as set out and published by the Conservation Board giving the allowable daily withdrawal of

each crude oil well and that is as much as I know about it.

Q Has anyone else in your company, is there anyone whose duty it is to collect that information, to supply to the superior officers?

A I have no knowledge of that.

Q You have absolutely nothing to do in connection with that, with the setting of a balance ticket between what all the rest of the industry can use and what figures you supply as the requirements of the Imperial Oil to the Conservation Board?

A No, I have nothing to do with that, I have not done it in any event.

Q Wells which you are interested in, they are a large number, that you have a financial interest in, that are not owned by the Royalite Oil Company?

A Offhand I do not know the number of wells which we have.

Q But there are quite a few, there is more than two or three?

A Oh yes.

Q You as secretary of the company I assume have charge of the records that show how much money you have invested or have coming from each of these wells?

A Yes.

Q And the method of repayment?

A That is correct.

Q There is periodically a list supplied to your head office or at least to the other companies?

A Yes, we send down a list to the Imperial Oil.

Q Pardon me, that discloses the true situation between your company and these different so-called independent companies, I mean the true financial situation?

A Oh no, no.

Q It doesn't show how much money you have invested or how much money you have agreed on as your share and the method of repayment and the amount that has been repaid from time to time and what your present interest in that property is?

A No, not a combined statement of everything, it couldn't be prepared.

Q No, but I mean you have a list, such and such a well we have originally $150,000 invested by virtue of having drilled the well or some money advanced or for some other reason?

A Yes.

Q Then you say that at the present time there has been so much repaid and the balance due?

A Yes, there is a trial balance and we have a receivable account in the trial balance which will show how much money was coming.

Q Would it be possible from your records or do you keep those records here, to supply the Commission with the information, the pertinent information for each well, the amount of money you invested and how it came to be invested and how it is repayable, what your interest , operating interest- in that well is and whether you actually control the well, the operations of the well, in other words, back each company's financial record with a contract, apart from the production contract, as to show the true relationship between each company and the Royalite, you would be able to prepare that?

A No, not to show the true relation, that couldn't be prepared.

Q The true financial relations?

A It would mean another estimate, I can estimate, yes.

Q Take one particular well that I have some knowledge of, just offhand, Royalite 30, you took over that property and you

undertook to drill a well for the proprietor?

A Yes.

Q For a definite sum?

A That is true.

Q There was nothing indefinite about the amount you were to receive insofar as remunerating yourselves for the cost of drilling that well?

A No.

Q Now there is nothing indefinite as to the amount that is applied to the credit of that expenditure by the revenue derived from the production of crude oil from that well?

A Correct.

Q So that you can apply the revenue to the production or to the cost of drilling that well that you charged up against the owner, that is correct is it not?

A Yes.

Q The only thing which is indefinite in connection with the history of that particular well is that your interest that you receive is a bonus which in this case if I remember is 60% of the total production, less the royalties, that is indefinite because you do not know how much that well will produce and therefore you do not know the ultimate profit out of that particular operation, that is correct is it not?

A Yes.

Q But there is nothing indefinite as to the operating agreement between you and that company, which gives you absolute control of that company for operating purposes?

A There is no company, it is a syndicate of individuals.

Q A syndiciate of individuals?

A Yes.

Q Now in that case you have the operating of that well, I mean you have your own men, you give them orders, you handle that well to the best of your ability and knowledge as you see fit, that is correct is it not?

A That is correct.

Q The owner, this syndicate have no say in the matter according to the contract which you have entered into with them as to the operating of that well?

A I have not got the agreement here.

Q But the fact that you receive 60% of the crude----

A After we get our money back.

Q After you get your money back?

A Yes.

Q And that there are Government royalties of 10%, which leaves only 30% in the hands of the syndicate, well now that puts you in a position where for all practical purposes it is equal to one of your own wells?

A I think you are wrong in your calculation, you say only 30% to the syndicate.

Q Beg Pardon?

A You are wrong in your calculation when you say only 30%.

Q Well it is 35 or 25%, whatever it is, but it showed that you had control of the operations of that well and the revenue of that well?

A There is no secret about that, we drilled the well, put up all the money which was necessary to drill it and bring it into production; equipped it for production and did everything which was necessary.

Q Yes, and there is nothing wrong with that, but that well happens to be a good sized well, I mean it is better than the average well, is that not correct?

A I have not the latest allowable here.

Q From your knowledge would you not say it was above the average?

A Yes.

Q So that even with a very low allowable that well is able to meet its expenses?

A To meet its expenses.

Q Its operating expenses?

A Its operating expenses, yes.

Q But that is not the fortunate position of a number of wells in Turner Valley that you have under your control, that is that you ar operating?

A Crude oil wells?

Q Yes, crude oil wells?

A I do not know of any that are unable to meet their operating expenses.

Q I mean when the field allowable is down to 10,000 barrels, as long as that condition continues, do all your wells produce enough to take care of operating expenses, and the debts, in other words, the accounts due as they become payable?

A Oh that is different now, we are speaking of operating expenses?

Q Yes, I understand, I am sorry and I did not make myself quite clear?

A Well I don't know.

Q You don't know?

A No.

Q But besides operating expenses the average individual well has commitments to pay for casing, to pay for tankage, to pay royalties, which are not available out of production to

take care of current operating expenses?

A I don't know.

Q You don't know?

A No.

Q Who directs from Toronto or New York the direct operations of companies and independent wells under your company's operations, I mean there is someone that comes and helps you to decide on how many wells to drill and how to operate your wells, what companies might get into difficulties under certain conditions and direct you on the procedure to be adopted, is there no such man?

A That would be a pretty broad general policy and that is a general policy that is discussed with Mr. G. H. Smith, the Chairman of the Board of the Royalite Oil Company.

Q Does Mr. G. H. Smith come here personally a number of times a year?

A No.

Q No, he is not able to direct the operations from time to time?

A No.

Q Except by long distance, but you have someone who must of necessity come closer to the field of operation to be able to direct them for Mr. Smith?

A Yes, representing him.

Q Who is this?

A Oh I don't know.

Q Maybe more than one?

A Yes.

Q Who are they?

A Well there was a name that was much mentioned in the newspapers here, he comes here at certain times of the year,

Mr. Bimel.

Q Yes, what is his position in the Royalite Oil Company?

A I suppose he is the representative of Mr. G. H. Smith.

Q He has no official position with the Royalite Oil Company?

A No.

Q What is his position in the Imperial Oil Company?

A I don't know.

Q You don't know?

A No.

Q What does he claim to be when he presents himself to you and gives you directions?

A He claims to be a production expert, good gas plant man , and he is.

Q So that Mr. Bimel is the connecting link between Mr. Smith and your office in matters of production?

A In matters of production, yes.

Q And he is the man that helps to convey to your organization the policy that they wish your company to adopt in matters of production?

A Oh I cannot say that, I do not know, he comes here and matters are discussed with him, speaking on behalf of G. H. Smith and there are others who come.

Q Who are the others who come, in the matter of production, Mr. Burns?

A Yes, Mr. B. A. Meyers sometimes comes, particularly however with reference to drilling.

Q You mean with reference to the technical end of drilling?

A Yes, and other oil field practices.

Q But he has nothing to do with the general financial arrangements in respect of production?

A Oh no.

Q Mr. Bimel is the man?

A Oh I don't know that Mr. Bimel has anything to do with general finances, it is merely operations, he is an expert in those matters, gas plants and pipeline oil field practices.

Q Well when he comes here is his work mostly with your department or is it mostly with the management, that is with Mr. McLeod's department?

A Oh mostly with Mr. McLeod, yes, and he goes to the field.

Q And passes on various projects?

A Well advises.

Q Advises, yes?

A Yes.

Q Actually as a matter of fact Mr. Bimel, being the representative of Mr. Smith, does definitely decide, after consultation with Mr. Smith, in matters where it is necessary?

A Oh I would not say that either, he makes suggestions.

Q Are his suggestions likely to be carried out?

A Oh I don't know, I would have to know about some specific case.

Q With regard to taking over a well in Turner Valley under certain conditions, in other words a deal is offered to you, your office, and your company gets all the ground work and all the information reduced to writing and the circumstances surrounding the deal in every respect and then you make a recommendation to your superior officers in respect of what you think or on what basis you would be prepared to recommend this particular deal, would Mr. Bimel then come in and pass on it and take that into consideration before you would finally

get an "o.k." from Toronto?

A Oh it might be others.

Q Others?

A Yes. There might be Dr. O. B. Hopkins, he may have something to say about it, speaking now from the point of the Imperial Oil, he might be able to recommend a property from the geological standpoint or make suggestions to us.

Q You mean in that particular case, that the various departments interested would pass on their particular aspect of the situation so that you would have experts' advice and knowledge of all the physical facts?

A That is correct.

Q But Mr. Bimel would pass on the intangible matter, the question of whether it is good business to do it or not to do it?

A Oh no, not necessarily.

Q Who does that part of the work?

A Well it may be one of them or any one of them or it might be another man again, Mr. R. B. LeSueur, who is the Vice-President of the Royalite Oil Company.

Q Mr. LeSueur would be the superior officer to Mr. Bimel?

A Mr. LeSueur is on the Board of the Imperial Oil Limited and Vice-President.

Q Is he a superior officer to Mr. Bimel?

A Oh I would not know but I presume that he is.

Q Why are you so indefinite?

A Well all I know is that he is Vice-President of Imperial Oil Limited and Imperial Oil Limited controls another company, the International Petroleums Limited, and the other names I have mentioned, namely Mr. Bimel and Mr. Meyers and Dr. Hopkins,

those men are all directors of the International Petroleums Company.

Q So that you are not quite sure as to the representative positions of Mr. Bimel and Mr. LeSueur?

A No.

MR. FRAWLEY: Mr. LeSueur is Vice-President of International Pete and Mr. Bimel is a director.

Q MR. PLOTKINS: A director?

A Yes.

Q Well if I suggest to you, Mr. Burns, that Mr. Bimel handles the business end, reconciles the business interests of the various operating companies, with respect to any matter in which you might in the Royalite Oil Company, might be interested, in Turner Valley, would you say that is the fact?

A No, I would say----

Q Or would you know?

A I would say that he alone does not make any decision affecting these companies; any of these gentlemen whose names I have mentioned, they may suggest to the company what in its best interests should be done.

Q Yes but, Mr. Burns, in your organization, efficient as it is, certain individuals are assigned to certain specific duties and Mr. Bimel, while he may take the advice of Mr. LeSueur or he may ask the advice of a dozen individuals, so as to help him in his own duty, is it not the fact that in the last analysis he is the man that directs the business policy?

A Who is this?

Q Mr. Bimmel?

A Oh no, no, it is not the fact.

Q It is not correct?

A No, no, his experience is mainly along practical lines of the operations, the operation of an oil field.

Q The operation of an oil field as an operating unit, you mean the technical end?

A The technical end, yes.

Q Does Mr. Hill have anything to do, or does he come out here periodically in connection with the operations of your company in Turner Valley?

A Which Mr. Hill?

Q Of Ford, Bacon and Davis?

A He is not connected with the company.

Q Does he in any capacity at all make periodical visits here and help you direct operations in Turner Valley or elsewhere in Western Canada?

A No.

Q In connection with any of your operations?

A None.

Q He is simply a consulting engineer that you have brought out here for the purposes of making certain valuations in connection with the pipeline?

A That is correct.

Q Does he do that work to your knowledge for other companies of the Standard Oil group?

A I have no knowledge.

Q Are you in a position to give us the cost of producing a barrel of casinghead through your absorption tank in the Valley as distinct from Turner Valley Naphtha ,that is separator naphtha?

A This statement would show that I believe, based on this method.

Q Yes?

A It shows that for the year 1938 the cost was 2.0279 cents.

Q MR. FRAWLEY: A little over 5 cents a gallon?

A Yes, in the year 1938 however a good many of the company's wells located in the gas-cap area were closed in with a resulting decrease in the amount of natural gas processed in the natural gasoline plant of the company, for the nine year period the cost is 1.6710 cents.

Q THE CHAIRMAN: Per barrel?

A Per barrel, that is for the nine year period on statement number 2.

Q MR. FRAWLEY: Which sheet?

A On Exhibit 256 but in that connection I should perhaps say that the absorption plants were not in operation, for the full period of that time; the Number 1 plant commenced operations in, I believe it was in April of 1933.

Q MR. PLOTKINS: Now it is correct to say then that owing to the reduced production of gas, natural gas available for processing through the plant, the cost of producing a gallon of absorption gasoline has gone up?

A That would appear to be true from this statement, yes.

Q Now the situation at the present time in Turner Valley is such, in respect of the number of plants which you now have in operation?

A We have two plants in operation.

Q You operate them both at the present time, is that correct?

A Yes, when I say two plants I refer to the two natural gasoline plants or as they are commonly called "absorption plants"; they use the absorption method of processing natural gas.

Q Are they both at the present time processing gas?

A That is correct.

Q They have both been processing gas right along the last six or eight months?

A Yes.

Q At no time was any one of them closed up?

A No. Well not for any long time I believe, one of them is down now for inspection.

Q I don't mean that?

A No.

Q When the Board considerably reduced its allowable quota for gas to be produced, did your company not combine the two plants'operations to one for the purposes of cutting costs?

A No.

Q You did not?

A No.

Q What was the percentage of capacity then under those conditions which your plant can operate at, in other words before the drastic reduction of gas allowable your plants were able to allow a percentage of perhaps 70 or 80% of full capacity, what is the capacity of your plant?

A The number 1 plant has a rated capacity of 115,000,000 per day, 115,000,000 cubic feet of natural gas per day.

Q Yes?

A And the number 2 plant has a capacity of approximately 60,000,000 cubic feet per day.

Q Have you in this statement for the year 1938 the total recovery of absorption gasoline?

A No.

Q You have not?

A No. The revenue received from the sale of it is there and

shown as $636,477.66; that is the gross revenue obtained from the sale of absorption naphtha from the two plants.

Q And that is the average price per barrel that was received for it?

A I have not that information right now but I believe it is available from some of the exhibits.

Q MR. FRAWLEY: The posted field price?

A It is the field price, yes, the posted field price.

Q MR. PLOTKINS: That would be the basis for arriving at the revenue, the posted field price?

A Yes.

Q 22 pounds?

A Well there were various changes, we made a 16 pound product there for awhile.

Q MR. FRAWLEY: There are only two quoted in the present posted field prices, 17 pounds, $2.08 a barrel; 20 pounds, $1.94 per barrel. I have somewhere a statement that the Imperial gave me showing over the course of the last few years the variations in the postings and the reasons for them, I can get that.

(Go to number 7054)

Q MR. PLOTKINS: You are not in a position to give us the average throughput for each plant of gas?

A No, I have no information on that here.

Q Would you be able to express an approximate figure as to the percentage of capacity?

A No, I have no information.

Q You do not know whether they operated at 50% or 70% or 80%?

A No.

Q Do you make it your business to know how much gas is available to the other plant for processing?

A No, I have not done so. The allowable is published by the Petroleum and Natural Gas Conservation Board, and is public information. I could determine it easily if I was interested.

Q Does your Company endeavour to arrive at the cost of producing a gallon of absorption gas in the competitive plants?

A I have never been asked for it and I have not done so.

Q Is that in another department of your Company?

A I do not think we have ever done anything about it. It could be ascertained. We would, of course, be obliged to ask these companies operating in order to determine what the unit cost would be.

Q Under a given condition?

A Under a given condition.

Q So that it is readily available to your Company?

A No, it is not.

Q The Royalite or some other company, as to what the cost, within very close limits, would be under certain conditions of allowables in Turner Valley?

A No, it is not. I would feel very diffident about asking other operators how much their operating costs were. I do not think I would do it.

Q What I am asking you now, that is not the way we proceed about it in the oil business, you are able to yourself, knowing the capacity of the plant, knowing the number of men it takes to run that particular plant and knowing the gas allowable that is set by the Conservation Board, you are then able to, being that the operating conditions are similar to your own plant, then able to determine without asking them anything about it, most likely, what the cost will be to them of producing a gallon of absorption gas as against your cost?

A Well I have not done it nor I have no knowledge of it having been done.

Q Your Company, that is the Royalite Company, is not called upon to do any of these calculations?

A No.

Q That is all, thanks.

Q MR. FRAWLEY: Mr. Burns, Mr. Plotkins was asking you as to whether there was any relation between the cost of producing crude oil in Turner Valley and the posted field price. You said there was not any as far as you knew.

A As far as I know I have no knowledge of it.

Q It is the Royalite only that produces crude oil in Turner Valley, I mean in the Imperial organization. No, maybe the North West some small amount, but chiefly it is the Royalite?

A The North West Company has crude oil production at the present time. They did not have in previous years but it

has now.

Q But the big producer of the Imperial organization is the Royalite?

A That is correct.

Q The Royalite actually sells oil to the Imperial?

A That is correct.

Q It is paid for in cash?

A Paid for, yes.

Q Paid for by the Imperial Oil?

A Paid for by the Imperial Oil.

Q And you demand and receive, I presume, from the Imperial Oil, the posted field prices for the various gravities of crude oil that are produced?

A We have not demanded that in the last few years. They have been posted and published, yes. We do not demand them. The Imperial Oil has posted the prices.

Q But you insist on getting paid that posted price?

A Oh yes, of course.

Q If you saw a cheque come in for something less than the posted field price you would object?

A Oh yes, indeed.

Q THE CHAIRMAN: Do you mean to say the Imperial posted the field price?

A The Imperial Oil Limited has posted the field price in recent years, yes sir.

Q MR. FRIMLEY: That is the Royalite Oil Company does not post any price?

A That is correct.

Q The Imperial Oil Limited presumably is the purchaser, the largest purchaser of crude oil and posts the price?

A That is correct.

Q And they have, so far as you know, no production of their own in Turner Valley? They produce no crude oil in Turner Valley?

A The Imperial Oil Limited?

Q The Imperial Oil Limited?

A Not of their own. They have no production that I have any knowledge of. I do not believe there is any.

Q Now the Imperial Oil also posts a price for absorption gasoline?

A That is correct.

Q Now I would like you to explain that. It perhaps should be brought to the notice of the Commission. In the National Petroleum News, and therefore also in other trade journals, there is a section devoted to the prices that are posted throughout the United States and Canada for both crude and refined products, petroleum products?

A That is correct.

Q I find, in speaking of Exhibit "145", which is the National Petroleum News for the 25th of January, 1939, there are various tank waggon markets posted and refinery tank car markets on refined products. And just to make the picture a little more complete, tank waggon markets for Canada are shown on Page 39 of this Exhibit in the section entitled "Tank Waggon Markets". They are for Canada, prices Imperial Oil Limited. Those are the prices of gasoline and refined petroleum products?

A Yes.

THE CHAIRMAN: What number is that Exhibit?

MR. FRAWLEY: Number 145.

Q Then when we want to find the posted price on absorption

[illegible]

[illegible]

A: [illegible] Railway [illegible]

[illegible]

A: The Imperial Oil Limited?

[illegible] The Imperial Oil Limited?

A: [illegible] They have no [illegible]

[illegible]

[illegible]

Q: [illegible]?

A: That is correct.

Now I would like you [illegible] point. [illegible]

[illegible] notice of the Commission. In the [illegible] authorities here, [illegible]

[illegible] Imperial, there is a security [illegible]

[illegible] that are [illegible] Commission [illegible]

[illegible]

[illegible]

A: That is correct.

[illegible] the [illegible] "[illegible]", which is the [illegible] here for the [illegible] of [illegible], [illegible] then [illegible]

[illegible] reason [illegible] position and [illegible] by [illegible]

[illegible] [illegible] the [illegible]. [illegible] to make [illegible]

[illegible] [illegible] company, [illegible] [illegible] for [illegible]

[illegible] [illegible] Company [illegible] [illegible]

[illegible] [illegible] [illegible]. [illegible]

[illegible] [illegible] [illegible]

[illegible] [illegible] [illegible]

[illegible]

[illegible]

[illegible] [illegible]

[illegible] [illegible] [illegible]

[illegible] [illegible] [illegible]

gasoline we find that in the section entitled "Crude Oil Markets" don't we?

A Yes.

Q And it is listed immediately under the crude oil prices posted for Canadian fields by Imperial Oil Limited?

A Yes.

Q Now why is that posted there along with crude oil?

A I suppose it is because it is a product of an oil field.

Q Might I suggest it is because it is a manufacturing product? It is a product used in manufacturing? It is refinery material in other words?

A That is correct.

Q It is refinery material as distinguished from the tank waggon markets I referred to on Page 39?

A Yes.

Q Primarily, therefore, then the refinery material, it is needed in this section in any event, - I won't say needed but I will say used in Alberta refineries along with crude oil for the manufacture of refined petroleum products?

A That is correct.

Q And we find a third commodity posted on Page 42 of this Exhibit, crude naphtha. So we find that the Imperial Oil posts in Turner Valley prices for crude oil, prices for crude naphtha and prices for absorption gasoline?

A That is correct.

Q And would it be correct to say they are posted altogether because all three of them are regarded for the purposes of this posting in any event as refinery material?

A That is correct.

Q THE CHAIRMAN: Is there anything else bought by the Royalite than those three?

MR. FRAWLEY: Bought by?

THE CHAIRMAN: The Royalite? You say it is the posted field price in respect of these three products that are used in the refinery?

MR. FRAWLEY: That are used in refineries, yes.

THE CHAIRMAN: Anything else bought by any of these companies that there is any field price for and that somebody else posts, in Turner Valley?

Q MR. FRAWLEY: Speaking for the Royalite, do you know of any other companies that post prices either for crude oil, crude naphtha or absorption gasoline?

A No. I presume however, that the British American Company would post their own prices. At least they are purchasing quite a considerable amount of crude oil in Turner Valley.

Q And crude naphtha also?

A Crude naphtha also, yes.

Q They are not purchasing any absorption gasoline? They make that themselves don't they?

A They make it themselves.

Q They may also be purchasing it too for that matter?

THE CHAIRMAN: Is there any other product, I would like to know, in Turner Valley, that comes out of the ground in Turner Valley that is not covered by these three names?

A There is natural gas.

Q MR. FRAWLEY: Yes, natural gas. Is there any posting of price for natural gas?

A No.

Q Now perhaps we might just explore that. It might be useful. Natural gas is produced by the Royalite Oil Company and is sold by the Royalite Oil Company?

A That is correct.

Q Chiefly to whom?

A Chiefly to the Canadian Western Natural Gas, Light, Heat, & Power Company Limited.

Q That is not purchased by the Gas Company at a posted price is it?

A No, it is purchased at an agreed upon price.

Q A contract price?

A No, hardly a contract price. At the present time it is lower than the contract price.

Q It is an agreed upon price?

A Yes.

Q Those are the only petroleum products or products relating in any way to petroleum produced in Turner Valley, crude oil, crude naphtha, natural gas and absorption gasoline?

A Yes, that is correct.

Q And the Imperial Oil Limited posts prices for crude oil, crude naphtha and absorption gasoline and the natural gas is disposed of under agreement?

A Yes, that is correct. It posts the prices at which the Royalite purchases. Personally I am not sure whether the British American posts their own prices or not.

Q It is not the usual thing, it is rather a departure from the usual if more than one purchaser posts a price?

A I cannot say as to that. I believe in the Mid-Continent field you will find there that the prices are posted by several companies.

Q That is quite true. That is true in the Mid-Continent, but speaking of Turner Valley, you have had some experience, Mr. Burns, and is it not a fact when the British American

posts that you people do not post?

A No, I cannot say as to that. I do not know. I do not know whether they post or not.

Q In any event that is the only - what we have been using for our guidance here, Exhibit "145", the National Petroleum News of the 25th of January, 1939, the only posting in Turner Valley is by the Imperial?

A I would not say that. I think they have merely taken the Imperial's posting and qualified their posting by saying this has been posted by the Imperial.

Q The only postings at any rate in this magazine are the Imperial Oil postings?

A Yes, as far as I know. I have not gone through the magazine.

Q If there are any any place they are badly out of place, that is all. Absorption gasoline is manufactured in Turner Valley by, chiefly by three people?

A That is correct.

Q By the Royalite Oil Company in two plants, and by the British American Oil Company in one plant?

A That is right.

Q And by Gas & Oil Products Limited in one plant?

A Yes.

Q Do you know if the processing procedure, if the manufacturing procedure is largely the same in all four plants?

A They all use the absorption method.

Q Of getting out the natural gasoline. Is it now in any event, whatever it might have been, is it now exclusively used as refining material?

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A As far as I know.

Q Well take the Royalite Oil Company for instance?

A We have in the past made sales directly to individuals and companies. I believe that some of it might have been used as tractor fuel just as it was obtained from the plant without further processing or refining.

Q Of that there is no doubt, but I wonder if that still continues. At the present time you are the chief producers of it. Are you disposing of your entire output of absorption gasoline to the Imperial Oil Limited?

A At the present time we are, yes. We have not had any calls for it. I do not know what the policy would be if we were to be asked to deliver it to a farmer or someone who came with his drums.

Q You have no plant at Turner Valley near your office or any place else there where you now sell absorption gasoline to the farm trade?

A Yes, there is a tank very, quite close to the office where sales could be made from it.

Q And they may be made from time to time?

A I do not think there has been any demand for some time.

Q Then it can go on record that you are turning your output over exclusively to the Imperial Oil Limited or are you?

A Well it all goes into the line now. I believe that there may have been an exchange between the Imperial Oil Limited and the British American. That is some of the Royalite absorption naphtha might have gone into the British American plant because it all went through the same line. But that is, speaking generally, and I think I know what you mean, your statement is correct.

Q That short of selling to the British American, which would

be largely an exchange?

A An exchange, yes.

Q You are selling exclusively your product to the Imperial Oil Limited?

A That is correct.

Q Any other refiners that might have a need for it have not been able to be supplied by Royalite?

A I know of no demand for it.

Q You know of no demand or request for this product of Royalite by any other refinery?

A No. If there has been any I have no knowledge of it.

Q And it is being sold to the Imperial Oil Limited at the prices which the Imperial Oil has posted. That is if it is 17 pound gasoline it is selling at, or you are getting $2.08 for it from the Imperial and if it is 20 pounds you are getting $1.94 for it?

A That is correct.

Q If it is anything in between or anything other than the prices posted here there is some comparable figure being paid for it?

A No. If it is anything in between the 17 pound product and the 20 pound product it takes the 17 pound price. If it is anything above 20 pounds it takes the 20 pound price.

THE CHAIRMAN: What do you mean by 20 pounds?

MR. FRAWLEY: It is called 20 pound Reid vapour pressure. A 20 pound vapour pressure product.

Q Can you give me some idea of what you are making and selling to the Imperial at the present time from both plants?

A No, I have no up-to-date information on that at this time.

I can inform myself. We have the daily runs there.

Q That is something that could just as conveniently be dealt with under the heading of manufacturing, but I suppose while you are here and you are the people who are making it and selling it, whether we treat it as purchased by them or sold by you perhaps it does not make much difference as long as we get it into the record at some place. How much trouble would it be to take - well I am wondering now. I want it to be the most useful. There is no use of me throwing this in at this time when perhaps the people who are going to be advising me with respect to manufacturing costs would want it in a different way?

A I had hoped to obviate that by showing this cost of producing absorption naphtha in this statement.

Q I will have a question or two about that. In any event you are now getting $2.08 and $1.94 and that averages, just taking it very roughly - of course I do not know what is principally being made there, do you know, 20 or 17?

A Both classes were made in the year.

THE CHAIRMAN: $2.08? Where are you reading from?

A $2.08 is the selling price quoted.

MR. FRAWLEY: Exhibit "255" the second page at the very bottom, the cost per barrel under the column Absorption Gasoline.

THE CHAIRMAN: $2.02.

MR. FRAWLEY: I am reading what they sell it for, the posted price. It looks as if you were very close, well, $2.08 and $1.94 is about what on an average?

A Well I would say generally we made more 17 pound product than we made of the 20 pound product.

Q You are slightly under, averaging the two posted prices,

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your cost of production was slightly over what you got for it, slightly over what you got for it if the average is anywhere near what the correct figure is. That is of course on this particular basis.

A For that year, yes.

Q For that year, and on this basis, on this revenue basis, to which exception has been taken, of which we have heard in the evidence. Has there been much variation in the - well this does not indicate it and perhaps you do not know what variation there has been in the posted prices of those products?

A No. I am sure it is indicated here in one of these exhibits though.

Q You told us that you think that before Mr. Moore makes his nomination or advises the Conservation Board of the amount of crude that he wants for the succeeding 30 days, that he has some consultation with the Royalite? Well now, for what purposes would there be any consultation with Royalite as to what Mr. Moore's crude needs would be?

A I cannot say as to that. Perhaps just a matter of co-operation.

Q When he advises the Conservation Board that he desires so much crude produced for his needs, he is well aware he is going to get back some of the Royalite crude but he is also going to get a great deal of other people's crude. That is true?

A Yes.

Q Suppose he was the only man who had a nomination and he said "I want 4000 barrels a day for the next 30 days", and he was the only person, he was the one refiner in the field. He knows that means that Royalite would be granted a certain

percentage of that 4000 barrels, the Brown interests would be and all other producers in the field?

A That is correct.

Q Do you see any connection between the two things, that the Royalite produces crude oil in Turner Valley with Mr. Moore's nomination to the Board?

A No. There would be no need for him to discuss it.

Q No, he simply needs so much crude and if Royalite is the producer automatically they are going to share in his nomination?

A That is right.

Q If Royalite was not a producer his nomination would necessarily have to be obtained from all other producers?

A That is correct.

Q And you think there is no point in.....

A No, there is no need of him discussing it. But I have heard him discussing it and that is why I said so.

Q THE CHAIRMAN: I understand Mr. Burns, taking this statement Exhibit "256" on Page 2 thereof that the net result is that we find on this method of approach that it cost .8311 cents to produce a barrel of crude, and 1.78 crude naphtha, 1.6710 absorption naphtha and .1210 having to do with what, pipe line costs?

A With pipe line costs.

Q Did I get the correct impression of what is intended to be conveyed here?

A That is correct.

Q Per barrel?

A Per barrel, yes. In each case per barrel.

Q And you are allowing how many gallons to the barrel?

A 35 Imperial gallons.

Q MR. COMMISSIONER LIPSETT: Just to get clear in my own head, Mr. Burns, in the split-up of these indirect expenses, take the depletion item as an example, is that split as to 44.5% to crude?

A No. Now this is Exhibit "256"?

Q "255".

A Yes, that is correct. The depletion is split on the basis of 44.5347% to crude oil.

Q Ahd so on all along that line for items marked Number 2 in the brackets?

A That is correct.

Q Then an item such as this last item for reserve for Dominion Income Tax, $232,338.00, that is divided up as to 30.8860%?

A That is correct.

Q Of the total?

A Dominion Income Tax is applicable over all income. That is to say it is applicable over the pipe line, but we could not show that our pipe line had been depleted and thus we make a separate split.

Q Just on that Income Tax, Mr. Burns. What do you say about what I understood Mr. Plotkins was putting to you that that is not really an item in costs, but that it would ordinarily mean an addition to your net profits out of which income Tax would have been paid?

A Oh, it is a cost to the shareholders, to the man who receives dividends.

Q It is a cost to the shareholders, but it is not a cost to the Company is it?

A Well the Company is looked on as being a collection of shareholders, it is, Sir, in my submission.

Q I just wanted to make sure that I had your view, Mr. Burns,

A Yes.

Q Would the position be that the profits of the Company would be that figure shown on Statement 3, $1,268,752.80 plus this Income Tax and that then in paying the dividends they would deduct that Income Tax off the shareholders?

A No, this is the profit of the Company for the year, $1,268,752.80.

Q Yes, but I am just asking your view as to whether really the profit is not that figure plus $232,338.00?

A No.

Q As far as the Company is concerned?

A No. In my submission Income Tax is a separate consideration. The recipient shareholder of Royalite Oil Company must pay IncomeTax on what he receives.

Q On top of this?

A Oh yes. True it is he is allowed an allowance for depletion. In the case of the Royalite Oil Company he is allowed - I have forgotten - but I think it is 20% by the Dominion.

Q He is allowed a further deduction for depletion?

A Yes. That is the man who receives a dollar in Royalite dividends pays Income Tax in whatever bracket he may find himself in on 80 cents of that.

Q Over and above this Income Tax that you put in as the corporation tax?

A Over and above the Income Tax which the Company has paid.

Q Then is that figure of Income Tax, just to make it clear to me too, is that figure based on your net figure of $1,268,000.00 or is it based on the gross of the two figures?

A Well it would be quite a calculation to make here. Roughly

speaking, it is on the gross of the two figures.

Q And then having charged that you show the net figure on Statement 3?

A That is correct. And then there are many things which are not allowed by the Dominion Income Tax in the calculation of depletion, which must be considered. That is interest on bonds. They do not allow a calculation of depletion in that. That might change it. Nor any gain on sales of capital assets or any capital losses.

Q Now just one other question. Perhaps it might save you coming back. That 44% for depletion is charged to the crude oil?

A Yes.

Q And then the balance is split up among the naphtha wells and gas wells or between the gas wells and the naphtha and absorption plant?

A Well the balance is split on the basis of the Income ~~T~~ from the sale of products.

Q I was rather thinking that depletion applied more to the gas wells and to the crude oil?

A In that case this stands its proper proportion. It would stand 25%, the gas well would.

Q Yes, that somewhat bears out their criticism as to the statement if it puts depletion of the two plants, the naptha plant and the absorption plant on this revenue basis?

A Yes. Of course, absorption gasoline is made from the natural gas which comes from the well.

Q But the depletion really is on the gas well and the crude well, I take it, pretty well?

A Depletion according to this statement is on all products,

gas, absorption, crude naphtha and crude oil.

Q THE CHAIRMAN: I suppose you cannot tell us how many wells are leased directly from the Crown in respect of which you charge depletion?

A No, I cannot say.

Q Mostly from the Crown or mostly sub-leases; or roughly what percentage, if you have any idea?

A I have no idea. I could name off the wells and tell you whether it was located on a Crown lease or not. Beginning with - some of them are on C.P.R., lands; some are on lands leased from the Calgary and Edmonton Corporation Limited; some are on lands leased from Security Assets Limited and some from the Crown.

Q It would be simple to make up a statement would it?

A Yes.

THE CHAIRMAN: Is there anything more from Mr. Burns?

MR. FRAWLEY: No, that is all.

THE CHAIRMAN: You should, perhaps, file that statement then, Mr. Burns, or Mr. Nolan may for you. There is no need to have Mr. Burns back on this present phase of the Inquiry, is that right?

MR. FRAWLEY: That is right, Sir.

(At this stage the Hearing was adjourned until 10.30 A.M., May 17th, 1939).

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